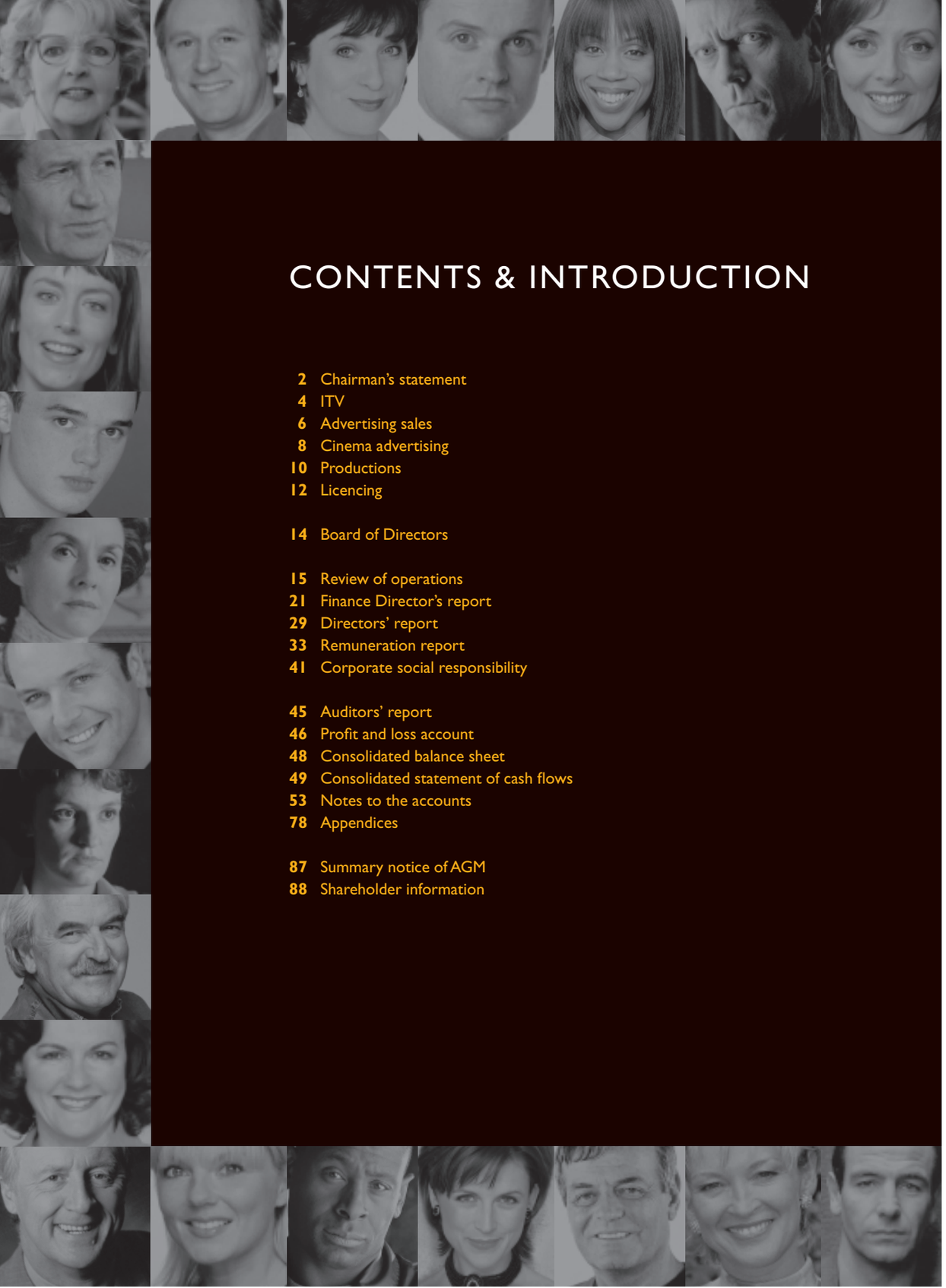
CARLTON ANNUAL REPORT 2002

TOWARDS A STRONGER ITV

Carlton Communications Plc
25 Knightsbridge
London SW1X 7RZ
Telephone +44 20 7663 6363
Facsimile +44 20 7663 6300
www.carlton.com

CARLTON
ANNUAL REPORT 2002



CONTENTS & INTRODUCTION

2 Chairman's statement
4 ITV
6 Advertising sales
8 Cinema advertising
10 Productions
12 Licencing

14 Board of Directors

15 Review of operations
21 Finance Director's report
29 Directors' report
33 Remuneration report
41 Corporate social responsibility

45 Auditors' report
46 Profit and loss account
48 Consolidated balance sheet
49 Consolidated statement of cash flows
53 Notes to the accounts
78 Appendices

87 Summary notice of AGM
88 Shareholder information

Design by **johnson banks** Main photography by **Philip Gatward** Printing by **CTD** Typesetting by **New Leaf**

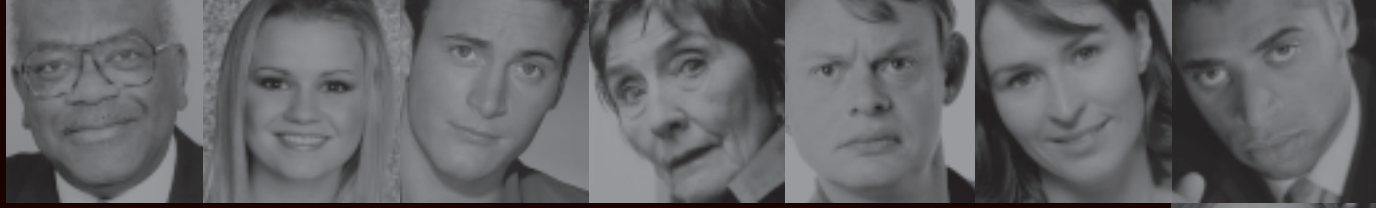
Alastair Stewart	Penelope Keith	William Roache	Declan "Dec" Donnelly	Trisha Goddard	Hugh Laurie	Carol Vorderman
Chris Tarrant	Sheree Murphy	David Harewood	Daniela Nardini	James Nesbitt	Davina McCall	David Jason
Anthony "Ant" McPartlin	Dennis Norden	Gaynor Faye	Des O'Connor	Fay Ripley	Frank Skinner	Gabby Logan
Gareth Gates	Ulrika Jonsson	Des Lynam	Gillian Taylforth	Geri Halliwell	Ray Winstone	Karl Collins
Gwen Taylor	Harry Hill	Helen Baxendale	Trevor McDonald	Mary Nightingale	Will Young	Cilla Black
Brian Conley	Caroline Quentin	Gary Lucy	Ken Stott	Kerry McFadden	Lisa Riley	Louis Walsh
Mark Curry	Martin Kemp	Martin Clunes	June Brown	Matthew Kelly	Melvyn Bragg	Melanie Sykes
Michael Greco	Nicole Faraday	Paul Nicholls	Amanda Burton	Pete Waterman	Peter Davison	Steve Irwin
Robson Green	Ross Kemp	Amanda Redman	Sam Neill	Rebecca Hazlewood	Simon Cowell	Katie Derham
Susie Amy	Zoe Ball	Tony Blackburn	Jane Asher	John Michie	Trudie Goodwin	Gina McKee

(from left to right on front cover)

All the artists that appear on the front and back cover and around the border of pages 1 to 13 are in current Carlton and Granada productions or have starred on ITV in the past year. With kind permission of Granada plc.

Pages 10 and 11. Stars from Carlton America TV movies include Alec Baldwin, Rachel Ward, James Woods, Jack Lemmon, Rosanna Arquette, Dean Cain and Penelope Ann Miller.

Pages 12 and 13. Stars in Carlton International's library include Alfred Hitchcock, Patrick McGoohan, Kenneth Williams, Sir John Mills, Roger Moore, Trevor Howard, Robbie Coltrane, Vivien Leigh, Dirk Bogarde, Peter O'Brien, Brains from Thunderbirds and Meryl Streep.



CARLTON

– a major part of ITV, broadcasting to 26 million people and accounting for 40% of ITV1 advertising revenues.

– the world's leading cinema advertising company selling across the UK, US and Europe.

– a producer of television programming in the UK and US for home and international markets.

– one of the largest programme distributors in Europe with 18,000 hours of television programmes and 2,000 films.

– listed on the London Stock Exchange (CCM) and Nasdaq (CCTVY).

FINANCIAL HIGHLIGHTS

– Advertising revenues down 6% for the full year, up 2% in the second half.

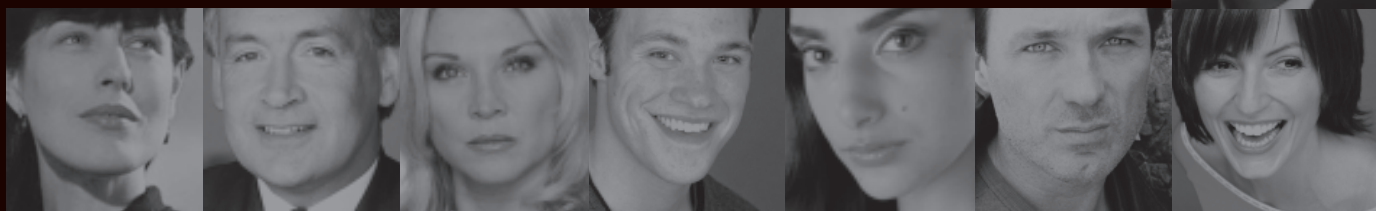
– Cost base under tight control – savings of £54m achieved.

– Total continuing operating profit before amortisation, interest, and exceptional items maintained at £65m.

– Net interest charge reduced to £12m.

– Continuing profit before taxation up 76% to £53m.

– Maintained final dividend of 5p. Total for the year of 8.275p.



"A single company with a single management team will benefit viewers, advertisers and shareholders."

Michael Green
Chairman

CHAIRMAN'S STATEMENT

"2002 was a year of rapid and fundamental change in British television. The advertising recession continued for a second year, competition from pay television intensified and a resurgent BBC, backed by increased funding, tried to challenge ITV's lead in peak time.

Against this background, the Board of Carlton has endeavoured to secure long term value for shareholders. We reduced our cost base aggressively and focused our management energies on our core businesses.

As we announced at the time of our interim results in May, the decision to discontinue our investment in ITV Digital was difficult, but essential for the future health of our company. Closure costs were fully provided for at the time and no further charges have been incurred.

We are making good progress with our partners in streamlining ITV's management and resource base and in October we announced a proposed merger with Granada. Creating "one ITV" has long been a strategic goal for Carlton and the Board is convinced that the merger is the right move at the right time. A single company with a single management team and a single focus will benefit viewers, advertisers and shareholders. By unifying ITV we can eliminate duplicated costs and concentrate all our energies on maximising the performance and value of Britain's most watched commercial television channel.

A strong commercial public service broadcaster leading the industry will be good for British television. We will be urging our regulators to look at the wider competitive landscape when considering our proposals.

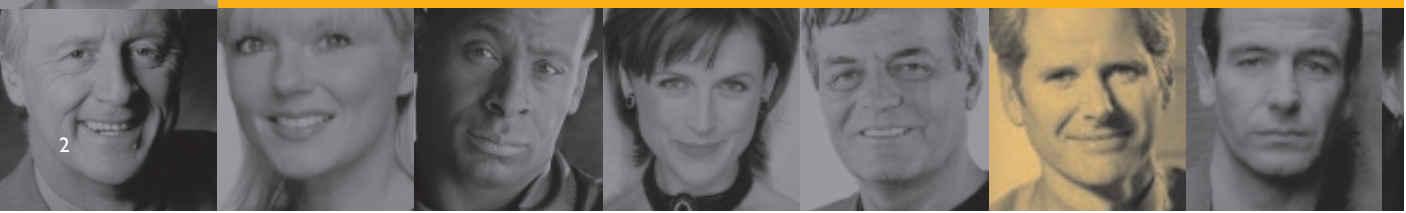
To secure the long term success of ITV we are investing further in programmes, with total schedule investment now amounting to almost £1 billion a year. Viewing figures are on an improving trend and, after a difficult first half, advertising revenues returned to growth in May.

The majority of the UK population now has multi-channel television. A powerful, performing ITV1 supported by a fast growing ITV2 is the right response to this increasingly competitive market place. Last year ITV2 increased its viewing share in multi-channel homes faster than any other channel.

Carlton has continued to expand its distribution of television programmes and films. Carlton International is one of Europe's leading programme

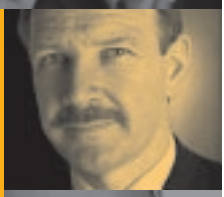
"Carlton is now well positioned to deliver earnings growth."

Paul Murray
Finance Director



"Carlton's prospects as a key component of a consolidated and cohesive ITV are excellent."

Gerry Murphy
Chief Executive



distributors and achieved double digit revenue growth in 2002. Our creative teams continue to make an essential contribution to ITV, while also producing programmes for other channels in the UK and overseas. For 2003 we have a substantially stronger order book of new commissions. In cinema advertising, we are expanding in the US and Europe and are the world leader in this dynamic market.

Group turnover from continuing businesses for the year was £965 million (2001: £1,040 million) and total operating profit from continuing businesses before exceptional items was £65.3 million (2001: £65.8 million). Continuing earnings per share were 4.8p (2001: 2.0p) before amortisation and exceptionals.

Taking into account the Group's financial and trading position and the planned merger with Granada, the Board has proposed a maintained final dividend of 5p per ordinary share giving a total of 8.275p for the year.

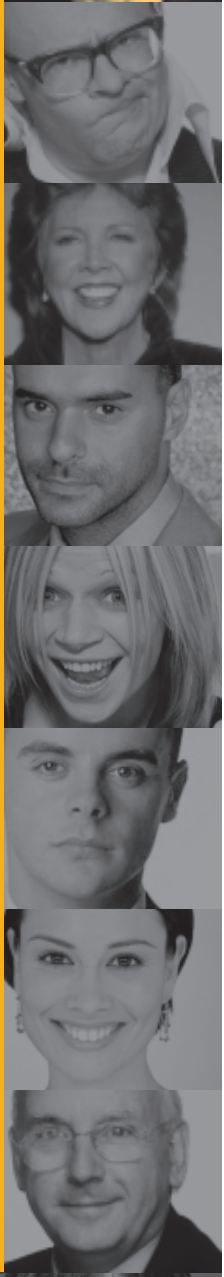
Looking ahead, our focus is clear. We will build on ITV's progress, prepare for merger and bear down on costs. We will continue to build our businesses outside ITV in programme distribution, cinema advertising and post-production.

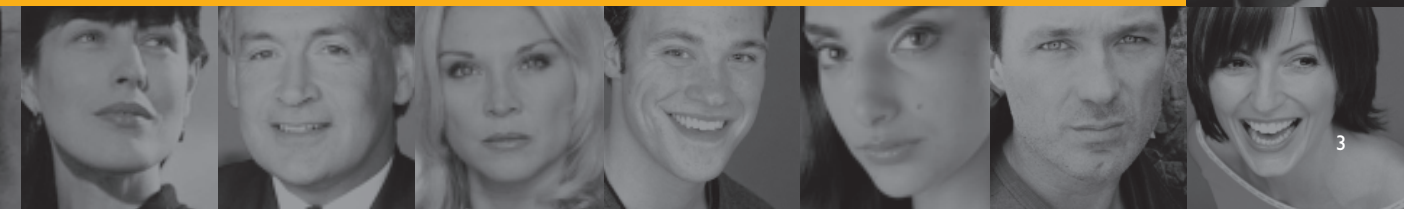
ITV has started the year well. Advertising revenues in the first quarter of 2003 are expected to be up 2 per cent year-on-year. However, like other broadcasters and advertiser-supported businesses, we expect the market place to be challenging in the months ahead. A strong ITV schedule, improved ratings and our proposed merger put Carlton in the best possible position to benefit as advertising demand starts to recover.

Gerry Murphy will be leaving Carlton in January. I thank him for his dedication and contribution to Carlton and wish him every success at Kingfisher plc. Anthony Forbes stood down from the Board after eight years as a non-executive director. We are grateful for his sound guidance and wise counsel and he leaves with our very best wishes.

I would like to thank all our employees for their hard work and loyalty over the past year. We should look forward to the opportunities of the coming year with enthusiasm and confidence."

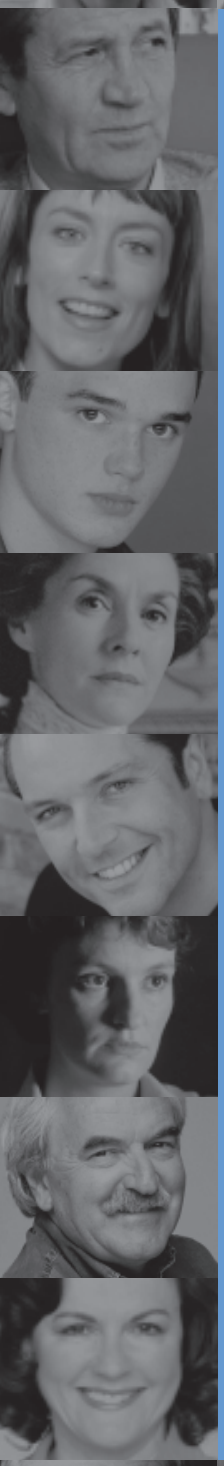
Michael Green, Chairman, 26 November 2002





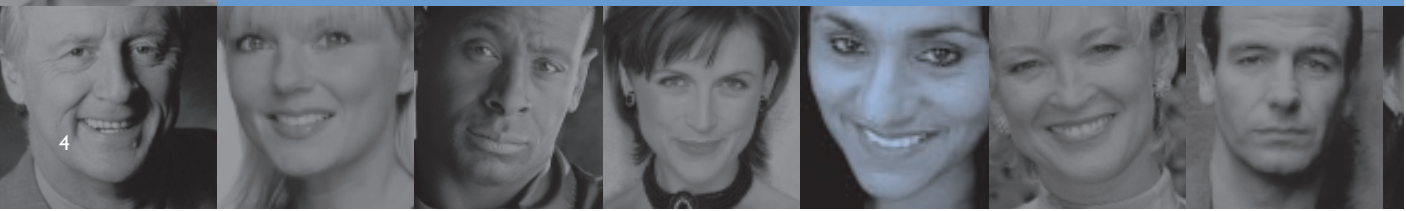
"I look forward to the challenge of maintaining ITV's position in the UK market."

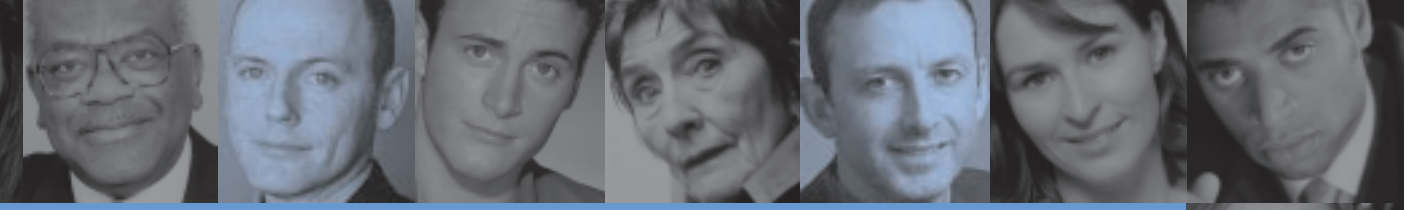
Nigel Pickard
Director of Programmes, ITV



"Carlton is home to 80% of the ethnic population in the UK."

Parminder Vir OBE
Producer/Cultural Diversity Adviser



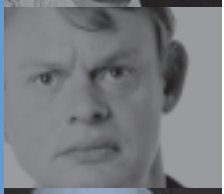


"In a world of over 200 channels, it is vital that we express our personality more intently than ever."

Jim Hytner
Marketing Director, ITV

"There have been many highlights for ITV2 in 2002 but the increase in airtime is particularly satisfying."

David Bergg
Director of Programme Strategy, ITV



ONE ITV, ONE FOCUS

"The ITV fightback is underway and we are already seeing improvements across the business."

Clive Jones
Joint MD, ITV Network and CEO, Carlton TV

Carlton and Granada are sharpening the commercial focus of ITV.

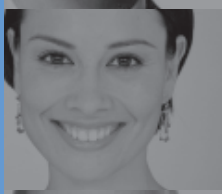
Almost £1 billion a year is spent on network and regional programming, more than any other commercial channel in Europe.

ITV1 invests in original drama productions (*Dr Zhivago*), sporting events (*The World Cup, Formula One*), live entertainment (*Pop Idol, The Brit Awards*) and blockbuster movies (*James Bond*) as well as the local news for each of the ITV regions. 300 programmes were watched by over 10 million people in the last year.

ITV2 is now frequently winning audiences of over 1 million, showing spin-offs from ITV1, second airings of popular shows and Champions League football. 'Brand extensions' from ITV1 have been particularly successful such as *Pop Idol Extra* which attracted up to 2.3m viewers making it the third most watched channel at the time.

ITV News Channel is now being cross-promoted from ITV1 and is available on all platforms.

As one company we would be one of the leading commercial broadcasters in Europe.

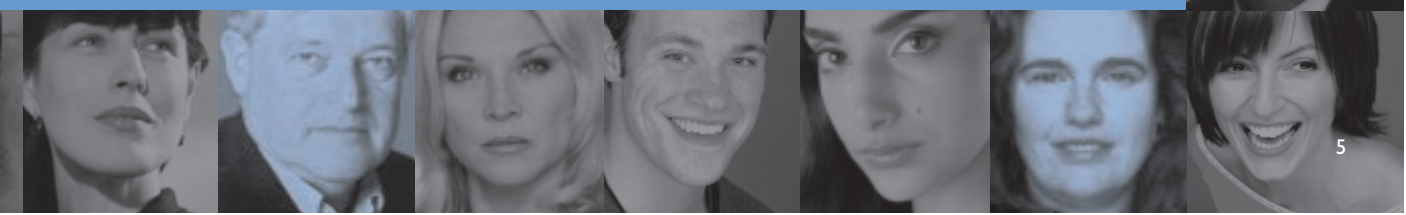


"ITV drama is about delivering big audiences, but doing it with style and audacity."

Nick Elliott
Controller, Network Drama, ITV

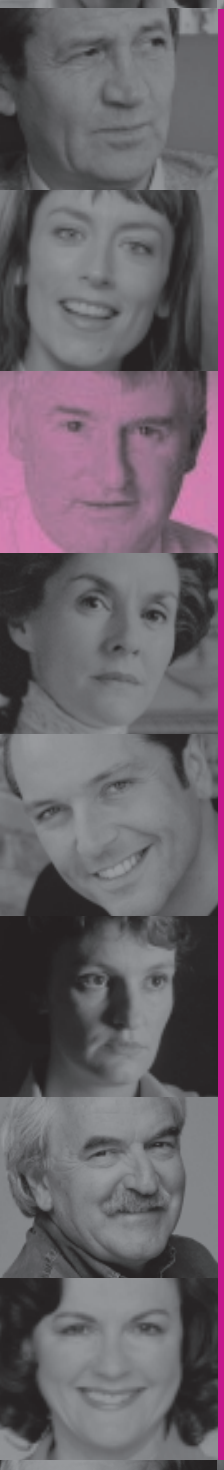
"Great entertainment is either about great drama or great comedy."

Claudia Rosencrantz
Controller, Network Entertainment, ITV



"The fact is that successful brands need TV to stay successful."

Bjarne Thelin
Planning Director,
Carlton Sales



"ITV is still the strongest commercial channel and remains a compelling purchase for most brands."

Steve Platt
Managing Director,
Carlton Sales

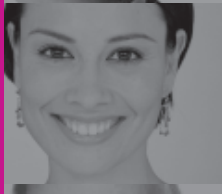
"The brain finds processing television images easy. That's one of the main reasons TV works."

Geoffrey Beattie
Professor of Psychology,
Manchester University

"No other medium ever comes close to the impact generated by television."

Martin Bowley
Chief Executive,
Carlton Sales

THE POWER OF TELEVISION



Television is the most powerful advertising medium there is.

Television commercials are discussed, analysed and written about. They are part of our popular culture.

The power of television lies in the combination of its impact and coverage. And ITV1 remains a potent force in the UK.

Our advertisers know that when they need to get their message seen - whether it's to launch a product, roll out a service or just keep ahead of the competition, ITV1 will deliver what they need for healthy and thriving brands.

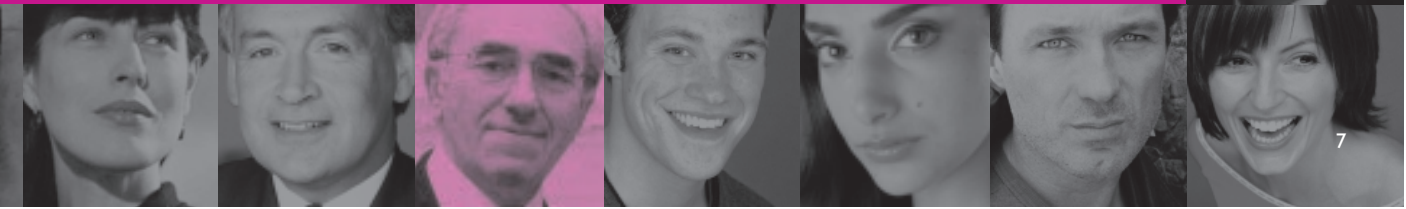
We can reach one third of the country every night – and almost 90 per cent inside a week.

We have invested in programmes, strengthened our schedule and built up the UK's fastest growing new channel, ITV2.

Our clients include Unilever, Proctor & Gamble and the Government and we are working with them to achieve the fastest and most effective delivery of their messages.

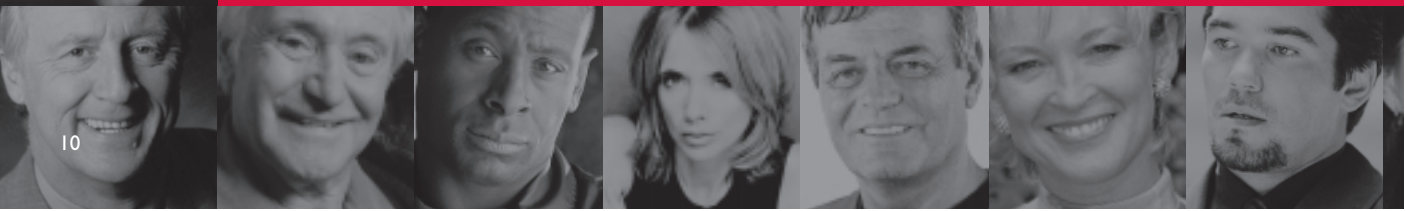
"Brands that maintain advertising budgets, particularly on TV, outperform competitors that don't."

Dr Stephan Buck
Author of *The True Cost of Cutting Adspend*



"Carlton is now thought of as a supplier of premium quality programming worldwide."

Steve Hewlett
Managing Director,
Carlton Productions



"Our success is due to the quality of our programmes and a keen understanding of the changing marketplace."

Stephen Davis
President and CEO,
Carlton America

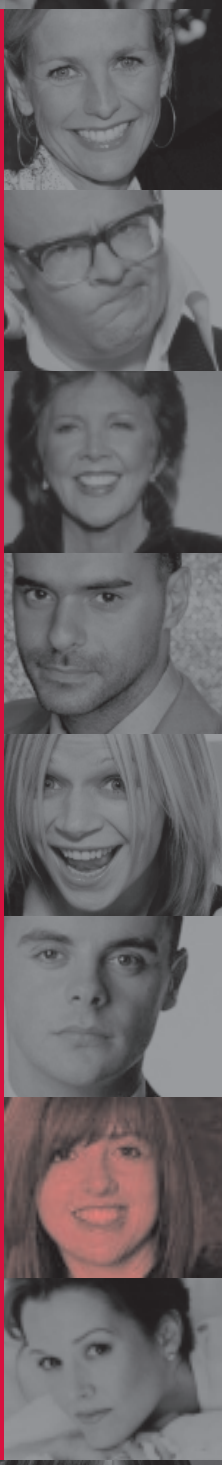
MAKING A BIG HIT IN THE USA

On the West Coast of America, we are one of the largest producers and distributors of TV movies in Hollywood making and acquiring an average of 12 new TV movies a year, around 90% of which are produced for the US networks.

Among all TV movies airing on US cable networks this year, *Atomic Twister* was the second highest rated movie to air and, on average, there are 30 Carlton films airing per week on the various US broadcast and cable networks.

The new slate of movies features big name stars such as Alec Baldwin, Penelope Ann Miller, Rosanna Arquette and Dean Cain. James Woods is starring in *Rudy: The Rudy Giuliani Story*, a biopic produced by Carlton America for USA Networks, based on the life of the former New York mayor.

On the East Coast of America we are making a raft of landmark documentaries including *Watergate Plus 30*, a candid look at one of the most defining moments of recent US history 30 years on. Our formats specialist, Action Time, has concluded two network deals in the US, for *Naughtiest Blunders* with Fox and *King Of The Castle* with CBS, as well as signing a development deal with the Gurin Company (producers of *The Weakest Link*).



"Action Time is a leading player in the programme formats market – active in over 40 territories."

Caroline Beaton
Joint Managing Director,
Action Time

"Our new factual production operation in the USA enables us to focus on the world's biggest TV market."

Richard Clemmow
Director of
Factual Programmes

"Consumers have higher expectations and demand more from a product. And we can deliver."

Gerry Donohoe
Managing Director,
Consumer Division

CARLTON CONTENT AROUND THE WORLD

"Across all media, we are dedicated to realising the fullest value from Carlton's growing content portfolio."

Rupert Dilnott-Cooper
Chief Executive,
Carlton Content

Carlton has one of the largest programme libraries in Europe and the largest library of English language films outside Hollywood. We have built a library of 18,000 hours of television programmes and 2,000 films which we sell to over 200 countries.

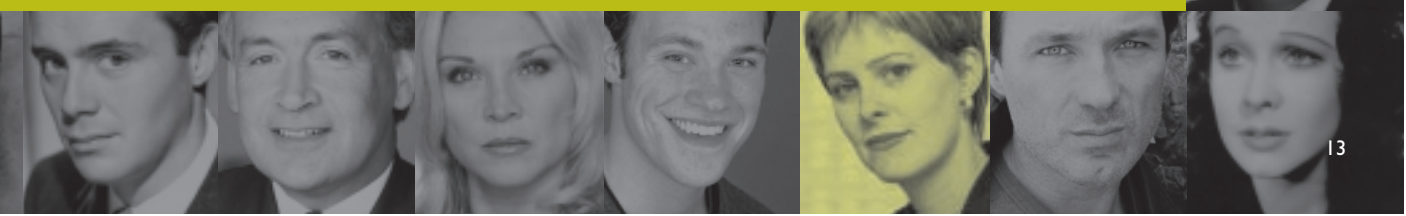
Titles range from the classic British films such as *Brief Encounter*, *The Thief of Bagdad* and *Sophie's Choice* to the cult television series of *The Saint* and *The Prisoner* and contemporary titles such as *Inspector Morse* and *The Planman* which sees Robbie Coltrane's return to ITV.

Across the multi-media platforms available to us now and coming on stream, we are increasingly mining our back catalogue and developing re-makes, videos, DVDs, books, games and merchandising, particularly with the enduringly popular Supermarionation series.

Thunderbirds is one of the most successful creative exports of recent years and Hollywood is producing a big budget theatric movie for 2004. *Captain Scarlet* now has deals in place around the world, and *Joe 90* was launched in the UK this year and is now under option to Disney.

"We have developed close partnerships with most of the major international broadcasters."

Louise Pedersen
Managing Director,
International Sales



BOARD OF DIRECTORS

Michael Green, Chairman
Aged 55. Michael has been Chairman of Carlton since 1983. He is a non-executive director of ITN and Thomson S.A.. He is Chairman of the Media Trust and a trustee of Sainsbury Centre for Mental Health. (Nomination Committee)

Gerry Murphy, Chief Executive
(until 31 January 2003)
Aged 47. Gerry has been CEO of Carlton since July 2000. He was previously CEO of Exel plc. Gerry is a non-executive director of Novar plc.

Paul Murray, Finance Director
Aged 41. Paul has been Finance Director of Carlton since 1 January 2002. He was previously Group Finance Director of LASMO plc. Paul joined LASMO in 1988 and held a number of senior financial and business development roles.

Etienne de Villiers
Aged 53. Etienne joined Carlton as a non-executive director in September 2001. He was previously President and Managing Director of Walt Disney International Europe. He is also a founder partner of Englefield Capital, a European mid-market private equity firm. (Audit and Remuneration Committees)

David Green
Aged 56. David became a non-executive director in 1990. He is Chairman of Colefax Group PLC.

Leslie Hill
Aged 66. Leslie joined Carlton as a director in 1994 and became a non-executive director in 1996. He is Chairman of Winchester Entertainment Plc and was Chairman of the ITV Network until June 2002. (Audit and Remuneration Committees)

Sir Sydney Lipworth, QC
Aged 71. Sir Sydney joined Carlton as a non-executive director in 1993. He was Chairman of the Financial Reporting Council until July 2001 and of Zeneca Group PLC until 1999. He was a non-executive director of Centrica plc until May 2002 and he is a trustee of the International Accounting Standards Committee Foundation. (Audit, Nomination and Remuneration Committees)

Sir Brian Pitman
Age 71. Sir Brian joined Carlton as a non-executive director in 1998. He is also a non-executive director of The Carphone Warehouse PLC and Tomkins PLC; and a Senior Advisor to Morgan Stanley. He retired in April 2001 from Lloyds TSB where he was Chief Executive for 13 years and Chairman for 4 years. He was also Chairman of NEXT PLC from 1998 until May 2002. (Nomination and Remuneration Committees)

CORPORATE EXECUTIVES

David Abdoo (41)	Administration and Legal Affairs
Viscount Caldecote (55)	Planning
Richard Cross (39)	Technology
Mike Green (45)	Finance
Nick Markham (34)	Strategy
John Rudofsky (51)	Corporate Affairs
Tony Williams (45)	Human Resources

DIVISIONAL EXECUTIVES

Martin Bowley (47)	Carlton Sales
Debbie Chalet (43)	Carlton Screen Advertising
Rupert Dilnott-Cooper (48)	Carlton Content
Steve Hewlett (44)	Carlton Productions
Clive Jones (53)	Carlton Television

Alastair Stewart, presenter of *London Tonight*

NEWS FOR OUR REGIONS

Carlton's 19 studios, 73 camera crews and 224 news journalists produce nearly 350 regional news bulletins each week. In our larger geographical regions we broadcast additional regional news services. In the Midlands, Carlton broadcasts three separate news services during the day, covering the Southern, Eastern and Western areas. HTV broadcasts a national news service for Wales and a regional service for the West of England. In total, we broadcast ten local news services and over 1,300 hours of regional news every year. We have studios as far afield as Cardiff, Penzance, Nottingham and Bristol.

Carlton makes over 3,000 hours of original regional programming for our 26 million viewers every year.

From *Legends* – an eight part series looking at the lives of famous Londoners such as Michael Caine and Dirk Bogarde – to *WaterWorld* – a look at life on the canals of the Midlands, Carlton's regional programmes reflect the differing interests of viewers across our regions.

Our regional programmes and presenters win mass audiences and awards. LNN's coverage of the Soho pub bombing won an RTS Award. *London Tonight* reaches 2.8m viewers every week.

REVIEW OF OPERATIONS

OVERVIEW

Turnover from continuing operations was £964.6 million (2001 restated: £1,040.1 million). The decline is primarily due to a reduction of £35.7 million in advertising revenues.

Operating costs are under tight control. A stringent review last year identified £45.0 million in annual savings in the second full year, including Carlton's share of savings in ITV. Delivery is well ahead of target with savings of £54.2 million achieved by end-September.

Total continuing operating profit before amortisation and exceptional items was maintained at £65.3 million (2001: £65.8 million). The total amortisation charge, including joint ventures, was £17.6 million (2001: £17.4 million) and operating exceptional items totalled £4.8 million (2001: charges £52.4 million).

Net interest charges were £12.0 million (2001: £35.6 million). The fall is attributable to lower effective interest rates and lower net interest bearing balances. Amounts written off investments were £8.2 million (2001: nil).

Profit on continuing operations before taxation was £32.3 million (2001: loss of £39.6 million).

BROADCASTING

Turnover was £799.5 million (2001: £830.1 million) and profits were £67.4 million (2001: £83.3 million).

Carlton's television advertising revenues recovered to show an increase of 2 per cent in the second half of the year, compared to the same period last year. After a difficult first six months, year-on-year growth resumed in May. For the year as a whole Carlton's Net Advertising Revenue ("NAR") was £660 million (2001: £695 million), including a full year of HTV which was acquired at the end of October 2000. On a like-for-like basis the decline in NAR was 6 per cent for the year.

ITV's advertising performance continued to be influenced by the penetration of multi-channel television and exposure to global brands that were affected by the worldwide economic climate. Although revenues in many product categories were lower than last year, cars, cosmetics, pharmaceuticals and home entertainment were all higher. ITV1's share of total UK television advertising revenues for the year is estimated at 54 per cent (2001: 57 per cent).

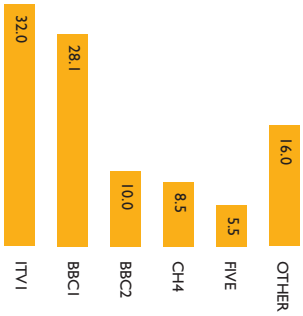
ITV's programme schedulers have worked hard with advertising sales to ensure that the strongest possible commercial schedules are

June Brown and Penelope Keith star in *Margery & Gladys*, a Carlton production for 2003.

ITV has extended its rights to show *Bond* movies on TV.

Hugh Laurie in *Fortysomething*, a Carlton production, for transmission in 2003.

ITV1 is the most watched channel in peak time (% of share of viewing 12 months to Sept 2002)



David Harewood returns as Inspector Joe Robinson in the fifth series of *The Vice*.

Pop Idol Extra: The Final was the highest rated show on ITV2 since launch with 2.27m viewers. (The most popular non-terrestrial show in the last two years).

delivered to advertisers. The promotion of ITV has been a key priority and a major conference, "TV Matters", was held to reinforce to the advertising industry the unique power of commercial television to connect with consumers. A follow-up study entitled "TV and the Brain", which looked at why television is the most powerful advertising medium, was presented earlier this month.

During the year, it became clear that the management structure of ITV should be streamlined to improve its decision-making process and that extra investment in the schedule was both needed and justifiable in anticipation of a recovery in advertising demand.

Carlton Television's Chief Executive, Clive Jones, was made Joint Managing Director of ITV. Closer cooperation was introduced between programmers and the marketing teams that led to an effective "ITV Upfront" roadshow to promote and market the channel directly to individual advertising agencies and media buyers this autumn. An upbeat message of more drama, more entertainment and more feature films in 2003 was well received by ITV's clients. The launch of a new on-screen identity for ITV and the appointment of Nigel Pickard from the BBC as the new Director of Programmes were two further positive developments at ITV.

One of the most important benefits of the proposed merger with Granada will be to simplify ITV's decision-making. For the first time, ITV will be managed with a single set of objectives for the benefit of advertisers, viewers and shareholders.

ITV1's programme budget was boosted by an additional £25 million lifting the total for the year to £773 million (2001: £735 million). This investment contributed to an improvement in audience share in the final quarter of the year. A further increase in the network programme budget to £815 million has been agreed for the 2003 fiscal year, and to almost £1 billion including local news and regional programming. This is the largest programme budget of any single commercial channel in Europe and demonstrates our confidence in ITV.

ITV1 remains the most popular peak-time channel delivering an audience share of 32 per cent during the year, a 4 percentage point lead over BBC1. ITV1's average peak time share is almost 4 times Channel 4's, nearly 6 times Five's and double all cable and satellite channels combined – in fact greater than all of the other commercial channels combined.

ITV1's lead over its terrestrial commercial rivals is even greater in multi-channel homes.

This reflects the popularity of ITV's original, domestically-produced programming compared to other commercial channels that rely heavily on imported or repeated programmes.

Carlton's share of ITV1 network schedule costs was £326.5 million, an increase of 6.4 per cent before programme stock provisions of £6.5

million. Total licence fees (including digital satellite transmission costs) fell to £111.1 million (2001: £119.5 million). This was due to lower NAR and the effect of the increased penetration of digital television, offset by an increase in payments following the renewal of the Carlton Midlands licence and by the first year digital satellite transmission costs.

ITV2, 44 per cent owned by Carlton, is extending the ITV brand in multi-channel homes. ITV2's progress this year has been well ahead of expectations and it enjoyed the biggest rise in popularity of any channel in multi-channel homes. The number of brands advertising on the channel has doubled and its revenues grew from £9.5 million last year to £12.9 million, benefiting from its launch on digital satellite last November. ITV2 is now available to nearly 50 per cent of the population and achieved its highest ratings since launch with extensions to top ITV1 shows such as *Pop Idol*, *Who Wants To Be A Millionaire* and *I'm a Celebrity…*, as well as Champions League football. Since September, ITV2 has been the second most watched non-terrestrial channel and in early November started morning weekday transmissions in response to rising demand from advertisers. Carlton's share of losses in ITV2 reduced to £7.2 million from £9.7 million last year and is expected to fall further as revenue growth continues in 2003.

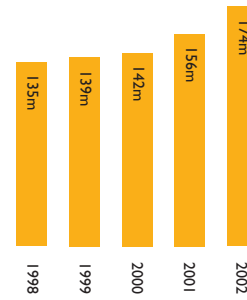
Cinema Advertising: Turnover for the year was £60.1 million (2001: £57.4 million).

Carlton Screen Advertising ("CSA") had its best year ever. It is the world's leading cinema advertising specialist and has developed state-of-the-art campaign management systems for the cinema. Carlton is now building on this expertise by investing in joint ventures in the much less developed US and continental European markets.

The rise in cinema audiences and advertising revenue continued in the UK, supported by a strong slate of blockbuster films. CSA retained its important UCI Cinema advertising contract accounting for 386 screens across the UK and Ireland. Its contract with UGC ended in January, which impacted second half growth, but it won National Amusements/Showcase just after the year end. CSA now operates on over 2,100 screens accounting for 63 per cent of the 174 million cinema admissions in the UK this year.

The Screenvision joint venture with Thomson in the US expanded its coverage through the acquisition of Val Morgan in September and now accounts for 54 per cent of all US cinema advertising screens. Screenvision Europe was formed with Thomson in June to acquire cinema advertising interests across continental Europe including France, Belgium and Spain for £62 million of which Carlton's share was £31 million. The financial impact of these ventures, which are in the early stage of development, was small.

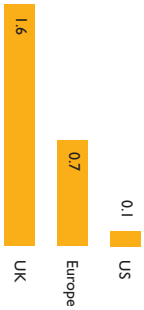
Cinema admissions have reached their highest level since 1971



Frank Skinner and Zoe Ball hosted *The BRIT Awards 2002*.

The ITV News Channel is cross-promoted from ITV1.

Cinema advertising as a % of total display advertising, 2002, showing growth potential in Europe and the US



The Moving Picture Company created major visual effects sequences for *Harry Potter and the Chamber of Secrets* (the flying Ford Anglia/Whomping Willow) and for *Harry Potter and the Philosopher's Stone* (pictured).

Stuart Milligan and Jane Asher are providing the glitz as Max and Angel Samson, the new management at *Crossroads*.

Facilities: Turnover was £40.8 million (2001: £33.4 million).

The Moving Picture Company ("MPC"), Carlton's post-production house, enjoyed a very successful year with turnover advancing by 30 per cent to £21.7 million. MPC has invested in new equipment and software enabling it to create more exciting special visual effects for feature films. MPC's output included work on several of this year's top films such as *Harry Potter and the Chamber of Secrets* and the latest Bond film *Die Another Day*. Work is now starting on a new *Tomb Raider* film due next year. MPC continues to provide high-end post-production services for television commercials for major advertisers such as Adidas, Nike, the Royal Mail and Stella Artois.

Carlton 021 provided outside broadcasting facilities for major sporting and entertainment events including the Champions League final which was broadcast to countries throughout Europe and to the US.

CONTENT

Turnover was £165.1 million (2001: £181.7 million) and profits, before amortisation, were £10.1 million (2001: £1.4 million), including significantly reduced losses from the interactive businesses previously included in digital operations.

Carlton Productions: Turnover for the year was £75.5 million (2001: £100.6 million).

Carlton continues to produce some of the best entertainment, drama and factual programmes on television. However, delays in ITV commissioning and the ending of the *Big Breakfast* contract for Channel 4 contributed to a reduction in output for the year.

Successful drama productions in 2002 included *Bertie and Elizabeth*, broadcast in over 30 territories and *Pollyanna*, seen in more than 50 countries. Importantly, Carlton Productions now has one of its strongest ever forward order books. We will be producing approximately 30 per cent of ITV's new drama output in 2002/2003 including shows such as *Making Waves*, *Fortysomething*, *Margery & Gladys* and *Sweet Medicine*. The successful hard-hitting police series, *The Vice*, is returning in a new one hour format and *Crossroads* has been re-commissioned for the key tea-time slot with a new production and editorial team.

Entertainment productions included *The Vault*, *Catchphrase* and more recently *Today with Des and Mel*, the new centrepiece of ITV's daytime schedule. Key televised awards events included *The Brit Awards*, *The Soap Awards*, *The Multicultural Awards* and *The Evening Standard Theatre Awards*. Carlton also won a broad range of commissions from other broadcasters including Sky, Channel 4 and BBC Choice. Award-winning factual programmes included *Kelly and her Sisters* and we

produced and sold further historical documentaries in the …*In Colour* series both in the UK and overseas.

Carlton's production ventures in the US made encouraging progress. We formed a new enterprise, Carlton Productions LLC, to develop factual programming and to build on existing relationships with Newsweek Inc. and the PBS Network. An international production fund, established with PBS in 2001, has approved five important projects for production totalling over $7 million, including a major film on the Watergate scandal. Carlton also signed a joint entertainment development deal with the Gurin Company, makers of *The Weakest Link* in the US, to exchange ideas on new shows and formats.

Combining Carlton's production activities with Granada's will create the UK's leading commercial production company with original programme and content sales of approximately £700 million. Greater critical mass and resources will allow more effective and efficient production for ITV and for other national and international channels.

Carlton International: Turnover for the year was £89.5 million (2001: £81.1 million).

Carlton International's sales grew by 10 per cent despite difficult conditions in the international television market. It has the largest English language film library outside of Hollywood and enjoyed strong demand for its films from broadcasters in Europe, Latin America and Asia. Recent sales included its largest ever deal with China that will bring the famous *Carry On* movies to Chinese audiences for the first time. Award-winning acquisitions such as *Bob and Rose* have been sold to over 40 territories worldwide. Other recent deals include *The Planman*, Robbie Coltrane's first TV project for several years, and the big budget production *Boudica* starring Alex Kingston.

Carlton America added nine new US television movies to its library of productions and co-productions. One major new project going to production is a biographical drama based on the life of former New York mayor Rudy Giuliani. Carlton is building an increasingly valuable contemporary TV movie catalogue with films that perform strongly on the main US networks and also sell well in Europe, making Carlton America the biggest independent supplier of US TV movies to the international market.

The long term development of Carlton's ever-popular *Thunderbirds* brand will be underpinned by the release of a Hollywood live action film in 2004. It will be followed by a new TV series and major licensing and publishing initiatives. Boxed sets of *Thunderbirds* DVDs have been selling very well in Japan. This helped Carlton Visual to its best year to date. Other strong DVD sales included collections of classic titles such as *Inspector Morse*, *Auf Wiedersehen Pet* and *Sapphire & Steel*.

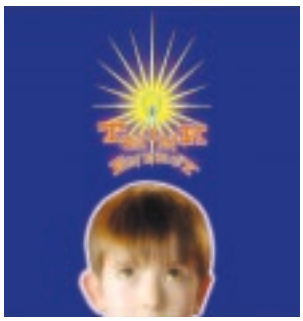
Des O' Connor and Melanie Sykes' new ITV1 daily entertainment and talk show has been recommissioned for a second run in 2003.

Award winning *The British Empire in Colour*, a TWI/Carlton production.

Joe 90, the cult Supermarionation series, released by Carlton in the UK as a five disc digipack and 8 video box set.

Carlton America's *Amy and Isabelle* was the highest rated movie on *ABC* last year.

Carlton America's *Atomic Twister* was the second highest rated movie on a cable network in the US this year.



The British Gas Energy Efficiency campaign was developed by Carlton.

A combined Carlton and Granada will have a huge library of new and classic TV programmes and feature films, creating new opportunities to sell programmes and licence rights for music and merchandising to customers in over 200 countries.

DISCONTINUED - ITV DIGITAL

Deloitte & Touche was appointed administrator of ITV Digital on 27 March 2002. On 30 April, it announced the closure of the business and on 18 October, Grant Thornton was appointed as liquidator to the company.

Carlton's share of ITV Digital's and ITV Sport Channel's pre-closure losses was £99.1 million. As announced at the half year, an exceptional charge of £98.6 million was taken as a result of the decision to place ITV Digital in administration. This was made up of a £34.6 million balance sheet write-off and a £64.0 million provision for Carlton's share of closure costs. No further charges were incurred in respect of ITV Digital in the second half of the year, nor are any further charges expected in the future.

In August, the High Court ruled that Carlton and Granada were not liable for the £131.8 million claimed by the Football League from ITV Digital. Subsequently, ITV and the Football League have agreed a broadcasting contract for certain rights during the 2002/03 and 2003/04 seasons.

PROPOSED MERGER WITH GRANADA

Following the initial announcement in October of merger proposals with Granada, a detailed submission has been made to the Office of Fair Trading for regulatory consideration. In the meantime Carlton and Granada are working together to deliver early efficiency gains and cost savings from sharing resources in areas that are not sensitive from a regulatory perspective, including transmission, purchasing and certain support services.

FINANCE DIRECTOR'S REPORT

Year ended 30 September	2002 £m	2001 (as restated) £m
Continuing operations EBITDA (before exceptionals)	**91.7**	96.6
Depreciation	**(23.0)**	(22.4)
Group EBITA before exceptional items	**68.7**	74.2
Share of operating results of joint ventures and associates	**(3.4)**	(8.4)
Total EBITA before exceptional items	**65.3**	65.8
Amortisation	**(15.5)**	(17.4)
Joint venture goodwill amortisation	**(2.1)**	–
Total operating profit (EBIT) before exceptional operating items	**47.7**	48.4
Exceptional operating items	**4.8**	(52.4)
Reported profit/(loss) before interest and tax (EBIT) on continuing businesses	**52.5**	(4.0)
Amounts written off investments	**(8.2)**	–
Net interest charges	**(12.0)**	(35.6)
Continuing operations profit before taxation	**32.3**	(39.6)
Discontinued operations		
– operating loss	**(101.7)**	(142.6)
– exceptional loss on sale/closure of business	**(86.8)**	(227.0)
Discontinued operations loss before taxation	**(188.5)**	(369.6)
Total Group loss before taxation	**(156.2)**	(409.2)

OVERVIEW

In the year to 30 September 2002, profit before interest, amounts written off investments and tax from continuing businesses rose to £52.5m from a loss of £4.0m in 2001. Reported profit before tax from continuing operations was £32.3m compared to a loss of £39.6m in 2001.

PROFIT ANALYSIS

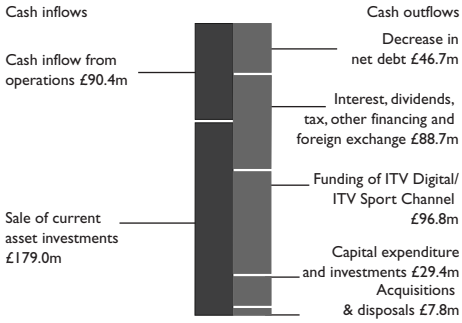
Continuing operations profit before amortisation, interest, tax, exceptional items and amounts written off investments was £65.3m in 2002 (2001: £65.8m).

Results for 2001 have been restated to reflect the closure of ITV Digital and ITV Sport Channel and the sale of other digital media businesses in discontinued operations in accordance with FRS 3.

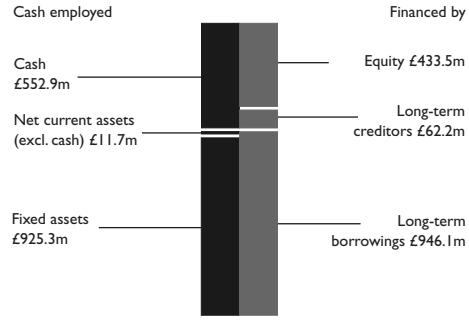
Loss before interest and tax for 2001 as restated is reconciled in the table below:

Year ended 30 September 2001	Continuing operations £m	Discontinued operations £m
Loss before interest and taxation as reported in 2001 accounts	(195.8)	(177.8)
Closure of ITV Digital and ITV Sport Channel	175.7	(175.7)
Sale of Ask Jeeves	16.1	(16.1)
Loss before interest and and taxation as restated	(4.0)	(369.6)

Analysis of net cash movement – 2002


Cash inflows
Cash outflows
Cash inflow from operations £90.4m
Decrease in net debt £46.7m
Interest, dividends, tax, other financing and foreign exchange £88.7m
Funding of ITV Digital/ ITV Sport Channel £96.8m
Sale of current asset investments £179.0m
Capital expenditure and investments £29.4m
Acquisitions & disposals £7.8m

Capital Employed – 2002



EBITDA from continuing operations, before operating exceptional items, was £91.7m, down 5 per cent on 2001 (£96.6m). The corresponding figures for the second half of the year show an increase from £22.0m to £48.0m. EBITDA is calculated as operating profit before interest, tax, depreciation, amortisation, amounts written off investments and the share of results from associates and joint ventures.

The changes in EBITDA before operating exceptional items from 2001 to 2002 is reconciled in the table below:

	£m
Year ended 30 September 2001	**96.6**
Year-on-year charges	
Advertising revenue and sponsorship – like-for-like	**(47.8)**
HTV October revenues	**7.6**
PQR and licence fees	**18.7**
Network schedule – like-for-like	**(19.8)**
Network schedule – Stock adjustments	**(6.5)**
Network schedule – HTV October costs	**(4.1)**
HTV – Other October costs	**(5.5)**
Digital satellite transmission costs	**(10.3)**
Cessation of loss-making activities and other cost savings achieved	**54.2**
Other net movements	**8.6**
Year ended 30 September 2002	**91.7**

The slowdown in advertising revenues and increased network schedule costs (resulting from both higher investment in the ITV schedule and stock adjustments) were the primary reasons for the fall in earnings in the year. These were largely offset by a series of cost saving initiatives and the scaling down of loss-making internet and digital channel activities. Operating costs and overheads were reduced by £54.2m, a 10 per cent reduction against 2001 excluding network costs and licence fees. This total comprises savings of £18.1m from operating costs and overheads and £36.1m from the scaling down of businesses.

EBITA before operating exceptional items decreased by 7 per cent to £68.7m (2001: £74.2m). This was primarily due to the reduction in television advertising revenues in the first half of the year. In the second half EBITA increased from £11.2m in 2001 to £36.0m in 2002.

TURNOVER

A breakdown of revenues from continuing operations is set out below.

Group Turnover

Year ended 30 September	2002 £m	2001 (as restated) £m
Broadcasting (excluding Screen Advertising)	**739.4**	772.7
Screen Advertising	**60.1**	57.4
Broadcasting	**799.5**	830.1
Content	**165.1**	181.7
Other (Screenvision US as a subsidiary)	**–**	28.3
Total	**964.6**	1,040.1

Like-for-like turnover from continuing operations, adjusted for the additional month of HTV revenue (£7.6m) and excluding Screenvision during the time that it was a 100 per cent owned subsidiary in 2001 (£28.3m), fell by 5 per cent. This was mainly due to a weaker television advertising market in the first half (down 12 per cent), partially offset by recovery in the second half (up 2 per cent). Reported turnover from continuing operations was £964.6m in 2002, 7 per cent lower than 2001 (£1,040.1m restated).

Group EBITA before exceptional items

Year ended 30 September	2002 £m	2001 (as restated) £m	Change %
Broadcasting	**67.4**	83.3	(19)
Content	**10.1**	1.4	
Other (including Screenvision US in 2001)	**(8.8)**	(10.5)	16
EBITA	**68.7**	74.2	(7)

BROADCASTING

Broadcasting profits were reduced primarily due to lower NAR and increased network programme budget costs. This was partly offset by reduced licence payments, increased profits from Carlton Screen Advertising and cost savings achieved from the scaling-down of loss-making digital channel operations.

Licence payments

Payments to the Government for the Group's wholly owned broadcasting licences are a significant element of the costs. In 2002 these payments totalled £100.8m before digital satellite costs (2001: £119.5m) and were made up of cash bids of £26.0m (2001: £19.9m) and Percentage of Qualifying Revenue ("PQR") payments of £74.8m (2001: £99.6m).

The PQR rates applicable to advertising and sponsorship revenue during the year were 20 per cent for Carlton London, 17 per cent for Carlton Midlands, 13 per cent for Carlton West Country and 7 per cent for HTV.

Carlton London's cash bid was £16.9m, Carlton West Country's £1.2m, Carlton Midland's £5.7m (this rose from £2,600 per annum, plus RPI, as of 1 January 2002) and HTV's £2.2m. No PQR is payable on the proportion of revenues attributed to the viewing of digital ITV services. As digital penetration increases in the future, the proportion of the advertising and sponsorship revenues attracting PQR will fall. The effect of this was to reduce PQR payments by £35m (2001: £10m). This benefit was partly offset by digital satellite transmission costs that commenced in November 2001 at a cost of £10.3m (2001: nil).

CONTENT

Content mainly consists of Carlton Productions and Carlton International. The improved profits have been achieved mainly through cost savings and the scaling-down of loss-making internet businesses.

OTHER

Group overheads net of rental income and Group foreign exchange differences amount to a net cost of £8.8m (2001: £10.5m net of £3.5m profits from Screenvision as a subsidiary).

JOINT VENTURES AND ASSOCIATES

Losses from joint ventures and associated companies before interest reduced to £3.4m before amortisation (2001: £8.4m). Amortisation costs were £2.1m (2001: £nil).

The improvement in the year resulted principally from reduced losses in ITV2 and the return to profitability of ITN. The Group's share of ITV2 losses was £7.2m (2001: £9.7m) and ITN profits were £1.8m (2001: loss £1.5m).

EXCEPTIONAL ITEMS

Exceptional items relating to the period can be analysed as follows:

	Continuing £m	Discontinued – closure costs £m	Discontinued – sale of businesses £m	Total exceptional costs £m
Exceptional operating charges				
Restructuring costs	(2.8)	–	–	(2.8)
Litigation (net)	18.6	–	–	18.6
Asset write-downs	(11.0)	–	–	(11.0)
	4.8	–	–	4.8
Exceptional charges				
ITV Digital and ITV Sport Channel				
– Balances written-off	–	(34.6)	–	(34.6)
– Closure costs	–	(64.0)	–	(64.0)
Technicolor sale adjustments	–	–	17.9	17.9
Sale of other investments	–	–	(6.1)	(6.1)
	–	(98.6)	11.8	(86.8)

Litigation (net) is the aggregate of legal costs and settlements. Asset write-downs principally relate to asset write-downs in the content business.

AMOUNTS WRITTEN OFF INVESTMENTS

A provision of £8.2m was made against Carlton shares held by the Group in various employee share schemes, reducing the carrying value to the year end share price.

INTEREST

Net interest charges were £12.0m (2001: £35.6m). The tables below show the constituent elements of the net interest charge and a reconciliation from the 2001 figure.

	£m
Interest payable	(50.4)
Benefits from swaps	19.3
Money market deposits	16.0
Loan notes	4.0
Amortisation of fees and fx differences	(0.9)
Net interest charge 2002	(12.0)

Net interest charge 2001	(35.6)
Lower interest rates	15.8
Lower debt balances	5.8
Foreign exchange gains on financing	2.0
Net interest charge 2002	(12.0)

The main reason for the lower net interest charge in 2002 was the benefit gained from swapping fixed rate sterling debt into floating rate dollar cost of finance (without currency risk) prior to September 2001, before short-term US interest rates were cut to historically low levels. The low financing cost of the Exchangeable bond and lower net interest bearing balances were the other primary reasons.

DISCONTINUED OPERATIONS

Discontinued operations relate to the pre-closure results and closure cost provisions for ITV Digital and ITV Sport Channel, further receipts from the disposal of Technicolor and other business disposals. The 2001 results have been restated to include ITV Digital and ITV Sport Channel in discontinued operations. The exceptional charges relating to ITV Digital and ITV Sport Channel in 2002 comprise £34.6m of balances written-off and a provision for closure costs of £64.0m of which cash costs to date are £14.1m.

EARNINGS PER SHARE

Earnings per share from continuing operations, before exceptional items, amortisation and investment write-downs were 4.8p compared to 2.0p in 2001. Earnings are defined as profits after tax and preference dividends.

After amortisation and investment write-downs the figure was 1.0p (2001: (0.6)p).

Basic earnings per share	**2002** pence	**2001** (as restated) pence
Continuing operations – pre-exceptionals	**1.0**	(0.6)
Exceptional items after tax	**1.0**	(7.5)
Continuing operations – post-exceptionals	**2.0**	(8.1)
Discontinued operations	**(26.8)**	(51.6)
Reported earnings per share	**(24.8)**	(59.7)
Continuing operations – pre-exceptionals (as above)	**1.0**	(0.6)
Amortisation	**2.6**	2.6
Amounts written off investments	**1.2**	–
Continuing operations pre-exceptionals, amortisation and investment write-downs	**4.8**	2.0

Diluted reported earnings per share figures are unchanged from those above.

DIVIDENDS

The proposed final dividend of 5.0p per Ordinary share, together with the interim dividend of 3.275p per Ordinary share already paid, makes a total for the year of 8.275p per Ordinary share (2001: 8.275p).

CASH FLOW

Net cash inflow in 2002 was £245.9m (2001: £65.0m) after tax, interest and preference dividend payments but before all investment. The increase was primarily due to the sale of loan notes in the year (£179.0m). Working capital increased by £11.6m (2001: £7.3m) primarily due to reductions in creditors as a result of the scaling down of loss-making digital ventures.

Cash outflows included capital expenditure of £11.7m and loan funding and closure cost payments relating to the ITV Digital and ITV Sport Channel businesses of £96.8m.

Net interest paid was £18.0m (2001: £32.5m). The decrease in financing costs was due to interest rate swap benefits as a result of lower interest rates offset by the purchase of a euro currency call option. The cash cost of preference dividends was £10.5m (2001: £10.5m). Tax repaid was £4.2m (2001: £3.1m).

Capital expenditure of £11.7m (2001: £43.1m) was significantly reduced following the sale of Technicolor in March 2001.

Net outflows from acquisitions and disposals totalled £7.8m (2001: £273.5m inflow). In 2002 this related to the purchase of Screenvision Europe (£31.0m), partly offset by further consideration following the sale of Technicolor (£23.2m).

Equity dividends, primarily the final dividend for 2001, were £55.5m (2001: £89.2m).

Overall there was a net cash inflow of £322.7m, a negative exchange movement on the sterling value of net debt of £6.4m and an increase in long-term funding of £269.6m, resulting in net borrowings at the year end of £459.9m (2001: £506.6m).

BALANCE SHEET

At 30 September 2002 the balance sheet showed net assets of £433.5m, a decrease of £230.2m since 1 October 2001. Fixed asset investments include an investment in Thomson SA ("Thomson") shares at a carrying value of £401.4m, details of the market value of which are set out below. Current asset investments include Thomson loan notes at a carrying value of £32.8m. Loan notes with a nominal value of £175.0m were sold or redeemed in the year.

Overall net debt at 30 September 2002 was £459.9m, compared with net debt at the start of the year of £506.6m. Details are analysed below, together with the carrying value and 30 September 2002 market values of Thomson assets acquired in relation to the Technicolor sale:

Analysis of net debt	30 September 2002 £m
Net cash	552.9
Loans – current	(35.0)
Loans – long term	(946.1)
Finance leases	(31.7)
Total	(459.9)

Thomson assets	Carrying value 30 September 2002 £m	Market value 30 September 2002 £m
15.5 million shares	401.4	155.3
Loan notes	32.8	32.8
Total	434.2	188.1

The Thomson shares are carried at €41.2 compared with a year-end price of €15.9. The shares have traded between €15.7 and €36.7 in the last year and the closing price on 22 November 2002 was €20.3. The table above indicates that effective net debt, i.e. net debt adjusted for the market value of the Thomson assets, was £271.8m at 30 September 2002 (2001: £7.0m).

On 30 November 2001 the Group issued a €638.6m (£397.6m) exchangeable bond, raising £389.6m (€627.4m) that was received in January 2002. The bond has a maturity date of 2007 and is exchangeable into Thomson shares at a fixed exchange price of €41.2. The investors also hold the right to put the bonds back to the Company in January 2005.

Shareholders' Funds at 30 September 2002 were £433.5m compared with £663.7m at the end of 2001. Goodwill written off on acquisitions prior to the adoption of FRS 10 has not been re-instated and the cumulative total of goodwill charged against reserves was £937.6m (2001: £937.6m).

TAX

The tax rate on profits from continuing operations, before exceptional operating credits and amortisation, of £45.1m is 23.9 per cent (2001 restated: 42.4 per cent). Exceptional operating credits in continuing operations include net income from litigation, to which no tax has been attributed, and exceptional costs on some of which tax relief is recognised, giving rise to a tax credit of £2.0m. This results in tax on continuing operations of £8.6m, the UK corporation tax element of which is offset by consortium and other tax relief from discontinued operations including exceptional charges and by foreign exchange differences that are debited to reserves. Tax of £0.2m has been attributed to the profit on sale of businesses included in discontinued operations.

In the US, federal tax has been provided at 35 per cent and state taxes have been provided at rates between 5 per cent and 10 per cent.

EXCHANGE RATES

The principal exchange rate affecting Carlton's translation of overseas results was the US dollar although the effect on the Group was greatly reduced following the disposal of Technicolor in 2001. The average rate of the US dollar in 2002 was US$1.48/£ compared with US$1.44/£ in 2001. At 30 September 2002 the rate was US$1.57/£ compared with US$1.47/£ at 30 September 2001.

FINANCING

Carlton's policy is to finance itself long-term using debt instruments with a range of maturities. Carlton has traditionally raised fixed rate debt from the US and European Capital Markets, as well as obtaining bank facilities from the UK Syndicated Market.

In November 2001 Carlton issued €638.6m (£395.4m net of issue costs) exchangeable bonds which mature in 2007, carry a coupon of 2.25 per cent per annum, and have a fixed exchange price of €41.2. The bonds are exchangeable into 15.5m ordinary shares in Thomson representing Carlton's total equity interest in the company. A more detailed summary of terms is set out in note 21.

In March 2002 Carlton completed the sale of US$175m nominal amount of loan notes issued by Thomson which were unguaranteed.

In February 2002 Carlton reduced the size of its £300m Syndicated bank facility (which matures in April 2006) to £100m. The facility has not been drawn to date.

OBJECTIVES, POLICIES AND STRATEGIES

The most significant treasury exposures faced by Carlton are raising finance, managing interest rate and currency positions and investing surplus cash in high quality assets. Clear parameters have been established, including levels of authority, on the type and use of financial instruments to manage these exposures. Transactions are only undertaken if they relate to underlying exposures. Regular reports are provided to senior management and treasury operations are subject to periodic independent reviews and internal audit.

INTEREST RATE MANAGEMENT

Carlton uses interest rate swaps, options and forward rate agreements to manage its interest rate exposures on its debt and cash positions with the objective of minimising its net interest cost.

The interest rate profile of Carlton's interest bearing assets and liabilities at the year end are detailed in notes 17, 18 and 24(a) respectively.

Net interest payable was £12.0m (2001: £35.6m). The main reason for the lower net interest charge in 2002 was the benefit gained from swapping fixed rate sterling debt into initially lower floating rate dollar cost of finance (without currency risk) in June 2001. During September 2001 and thereafter the Federal Open Market Committee cut US interest rates to historically low levels, significantly below the rates implied in the yield curve at the time that the swaps were entered into. The low financing cost of the Exchangeable bond relative to the interest earned on its proceeds and lower net interest bearing balances were the other primary reasons.

Borrowings are denominated in currencies that match Carlton's net assets as described below. The fair values of borrowings and cash at the year-end are compared to their book values in note 24(b).

CURRENCY MANAGEMENT

Carlton faces currency exposure on trading transactions undertaken by its subsidiaries in foreign currencies. In addition, Carlton is also subject to currency exposures arising on its 15.5m shares in Thomson (quoted in euros), loan notes issued by Thomson (denominated in dollars) and cash and debt instruments denominated in dollars and euros.

Carlton hedges a proportion of its transactional exposures by taking out forward foreign exchange contracts of up to four years forward against its anticipated and known sales and purchases. The decision to hedge is influenced by the size of exposure, the certainty of it arising, the trading and market position of the company in which the exposure arises and the current exchange rate.

At the year-end Carlton estimated that its net purchases of foreign currency in 2003 relating to trading transactions would total less than £30m after taking into account foreign currency hedging in place. The year-end fair value of foreign exchange contracts maturing in 2003 was negative £2.9m due to forward purchases of Swiss francs to match Champions' League payments undertaken in previous years when sterling was weaker.

Carlton's balance sheet translation exposure is managed by partially matching currency assets with a combination of currency borrowings and forward foreign exchange option contracts.

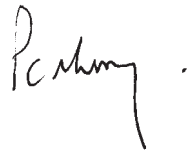
Carlton's largest single balance sheet currency exposure in economic terms is in euro. The exposure relates to a €638.6m Exchangeable bond (£395.4m net of issue costs) which is offset by the value of the 15.5m shares in Thomson (worth £155.4m at year end) and the purchase of a €425m (£266.5m at the strike rate) currency call option with a strike rate of 1.5947 (at a cost of £11.0m) which matures in January 2005 and had a fair market value of £10.8m at the year end. The cost of the call option is being written off on a straight line basis over its life (32 months) and to the extent that the written down value exceeds the fair market value further provision will be made. In 2002 £1.7m of premium cost was written off.

INVESTMENT OF CASH

Carlton operates strict investment guidelines with respect to surplus cash and the emphasis is on preservation of capital. Consequently, discretionary investments with maturity greater than one year must be rated AA or better and discretionary investments of less than one year must be rated A1 or P1 by the major credit rating agencies. There are also conservative limits for individual counter-parties. The maturity profile of investments is managed according to the forecast cash needs of the Group.

PROPOSED MERGER WITH GRANADA

On 16 October 2002, Carlton and Granada announced they had agreed the terms of a proposed merger. The merger is conditional on clearance by the competition authorities and the ITC. Carlton Ordinary shareholders will, upon completion of the merger, receive 32 per cent of the ordinary share capital of the merged group, potentially increasing to 34 per cent in 2006 dependent on the achievement of two conditions. The first condition is that the share price of the merged group reaches the equivalent to 140 pence per Granada Ordinary share, implying a Carlton Ordinary share price equivalent to 271 pence; and the second condition is that an agreed earnings target for the year ending September 2005 is met. This potential increase to 34 per cent will be effected through the issue of convertible shares to Carlton Ordinary shareholders upon completion of the merger. Granada shareholders will receive the balance of the ordinary share capital of the merged group and £200 million of cash on completion.



Paul Murray
Finance Director
26 November 2002

DIRECTORS' REPORT

REVIEW OF BUSINESS, PRINCIPAL ACTIVITIES, RESULTS AND POST BALANCE SHEET EVENTS

This is contained within pages 2 to 28 and note 36 to the accounts.

DIVIDENDS

An interim dividend of 3.275p net per Ordinary share was paid on 16 August 2002. The directors recommend the payment of a final dividend of 5p net per Ordinary share, on 7 April 2003 to Ordinary shareholders on the register on 28 February 2003.

DIRECTORS

Directors' responsibilities

Directors are required by the Companies Act 1985 to ensure that financial statements for each financial year are prepared which give a true and fair view of the state of the Company and the Group as at the end of the financial year and of the profit or loss for that period. In preparing the financial statements, the directors confirm that suitable accounting policies have been used and applied consistently; reasonable and prudent judgements and estimates have been made; and the financial statements have been drawn up on a going concern basis. Applicable accounting standards have been followed.

It is also the directors' responsibility to ensure that adequate accounting records are maintained; to safeguard the assets of the Company and the Group; to maintain a system of internal financial control; and to prevent and detect fraud and other irregularities.

Board of directors

The Company ensures that it recruits to the Board only individuals of sufficient calibre, knowledge and experience to fulfil the duties of a director appropriately. All directors are given appropriate briefing on appointment and individual training needs are met as required. The Carlton Board currently comprises the Chairman, the Chief Executive and the Finance Director, along with five non-executive directors. The biographies of the current directors on page 14 illustrate their range of experience, which ensures an effective board to lead and control the Company. All the directors served on the Board for the whole year under review except P C Murray who was appointed as Finance Director on 1 January 2002. N N Walmsley served as Deputy Chief Executive and B A Cragg served as Finance Director until 31 December 2001. G M Murphy, the Chief Executive, is due to stand down from the Board on 31 January 2003.

The Board meets regularly, normally eight times throughout the year. It retains full and effective control over the Company and monitors the executive management. The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. Board meetings follow a formal agenda and the Board has a formal schedule of matters specifically reserved to it for decision. The Company Secretary and Finance Director are responsible for ensuring that applicable rules and regulations are complied with and that Board procedures are followed. All directors have access to the advice and services of the Company Secretary and, if required, external professional advice at the Company's expense.

All directors are subject to re-election by shareholders at the first opportunity after their appointment. Pursuant to the Company's articles, all directors are required to retire by rotation and offer themselves for re-election at least every three years.

M P Green, L F Hill and Sir Brian Pitman will retire by rotation and offer themselves for re-election at the 2003 Annual General Meeting. Sir Brian Pitman, aged 71, has been invited to offer himself for re-election as the Board continues to believe that his business experience and ability are valuable and his re-election is in the best interests of shareholders. None of the retiring directors has a service contract with the Company. Biographies of the directors offering themselves for re-election at this year's AGM appear on page 14.

Non-executive directors

The five non-executive directors carry significant influence in Board decisions. With their differing backgrounds, they bring a wide range of experience and expertise to the Company's affairs and an independent judgement on issues of strategy performance and resources. Appointments are normally for an initial term of three years, which may be extended by mutual consent for additional periods. Given the calibre and experience of the non-executive directors, the Board does not consider it currently necessary to appoint a senior independent non-executive director. Of the non-executive directors, the Board considers E M de Villiers, L F Hill, Sir Sydney Lipworth and Sir Brian Pitman to be independent.

Audit committee

The audit committee is comprised solely of non-executive directors; Sir Sydney Lipworth (Chairman of the committee), E M de Villiers and L F Hill all of whom the Board considers to be independent.

The Company's audit committee meets at least four times a year to monitor the accounting policies, internal controls and financial reporting of the Group. The duties of the audit committee also include keeping under review the scope and costs of audit and the nature and extent of non-audit services provided by the auditors. The external auditor attends all the meetings and has direct access to the committee Chairman.

Nomination committee

A nomination committee, consisting of two non-executive directors and the Company Chairman, is responsible for reviewing and making recommendations to the Board on the appointment of directors. The members of the nomination committee are: M P Green (Chairman of the committee), Sir Sydney Lipworth and Sir Brian Pitman.

Directors' interests

Details of the directors' interests in the Company's Ordinary shares are as follows:

	1 October 2001*	30 September 2002
M P Green	10,208,324	10,208,324
E M de Villiers	–	–
D B Green	9,375,299	9,375,299
L F Hill	79,889	79,889
Sir Sydney Lipworth	33,100	34,572
G M Murphy	164,883	164,883
P C Murray	109,821	109,821
Sir Brian Pitman	1,082	1,082

*or date of appointment

Notes

(1) The Company established an Employee Share Ownership Trust (ESOP) in 1991 and a Qualifying Employee Share Ownership Trust (Quest) in 1998. The Companies Act 1985 deems each executive director to be interested in the shares held for the purposes of the ESOP and the Quest. These interests have not been included in the above figures. The number of Ordinary shares held for the purposes of the ESOP was 2,016,126 on 1 October 2001 and 1,822,172 on 30 September 2002 and 26 November 2002. The number of Ordinary shares held for the purposes of the Quest was 696,177 on 1 October 2001, 30 September 2002 and 26 November 2002.

(2) The interests of M P Green and D B Green include a holding of 8,057,330 Ordinary shares in the name of Tangent Industries Limited, a company controlled by M P Green.

(3) There have been no changes in these interests between the year end and the date of this document.

Remuneration committee

The remuneration committee is comprised solely of the following non-executive directors: Sir Brian Pitman (Chairman of the committee), E M de Villiers, L F Hill and Sir Sydney Lipworth, all of whom the Board considers to be independent. The committee deals with the remuneration of the executive directors on behalf of the Board. The Company's Chairman and Chief Executive assist the committee except in relation to matters specifically concerning their own remuneration. The Committee does not retain a firm of remuneration consultants, but seeks professional advice on an ad hoc basis.

The remuneration report of the Board can be found on pages 33 to 40.

CORPORATE GOVERNANCE

Carlton fully endorses the Principles of Good Governance and Code of Best Practice encompassed in the Combined Code ("the Code"). Throughout the accounting period the Company has complied fully with the provisions set out in Section 1 of the Code, other than in respect of the appointment of a senior independent non-executive director and directors' notice periods. The ways in which the Company applies the principles of the Code, together with explanations for any areas of non-compliance, are described in the Directors' report including the remuneration report.

Internal Control

The Code requires that companies review all internal controls including financial, operational, compliance controls and risk management. The Turnbull Report provides guidance to directors in complying with the internal control requirements of the Code. In the opinion of the Board, the Company has complied throughout the year with the guidance contained in the Turnbull Report.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Any internal control system can only provide reasonable and not absolute assurance against material misstatement or loss. Key control procedures are designed to manage rather than eliminate risk and can be summarised as follows:

Management policies and procedures – management responsibilities are established for the executive directors and the directors of the operating companies. These are laid down in the Company's Management Policies.

Strategy and financial reporting – the Group performs a comprehensive annual strategy and budgeting process. The executive directors review budgets and strategies and the Board approves the overall Group budget as part of its normal responsibilities. The results of operating units are reported monthly, compared with individual budgets and forecasts formally updated twice each financial year.

Organisational structure and authorisation procedures – the Group has an established organisational structure with clearly stated lines of responsibility and reporting. Authorisation procedures in respect of matters such as capital expenditure, investments and treasury transactions are clearly defined.

Risk assessment – management has responsibility for the identification of risks facing each of their businesses, and for putting in place controls and procedures to mitigate and monitor those risks. Formal bi-annual risk assessments are performed at each subsidiary and for the Group as a whole. Key risks, mitigating controls and required actions are identified and monitored by the audit committee and the Board. The risk assessment process is co-ordinated by the Group's internal audit function.

Reviewing and monitoring the effectiveness of internal controls – controls are monitored by management review, Group internal audit and the audit committee. Directors of all operating subsidiaries are required to complete an annual self-certification questionnaire confirming compliance with key controls and procedures. Completed questionnaires are reviewed by Group internal audit and the results are reported to the audit committee. Serious control weaknesses will be reported to the Board as appropriate.
The results of the bi-annual risk assessment are reported to both the audit committee and to the Board.

The audit committee and Board have reviewed the effectiveness of the internal controls of the Group for the period from 1 October 2001 to 30 September 2002.

GOING CONCERN

Based on normal business planning and control procedures, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the accounts.

SHAREHOLDER MATTERS

Relations with shareholders

The Company maintains good communications with shareholders. Senior executives of the Company, including the Chairman, Chief Executive and Finance Director meet frequently with representatives of institutional shareholders to discuss their views and to ensure that the strategies and objectives of the Company are well understood.

Substantial shareholdings

As at 26 November 2002, the Company had been notified of the following interests held, directly or indirectly, in 3 per cent or more of the Company's issued Ordinary share capital:
Artisan Partners Limited Partnership – 26,904,819 shares
CGNU plc – 32,396,390
D C Thomson & Co. Limited – 24,250,000 shares
Fidelity International Limited/FMR Corp. – 85,011,598 shares
Legal & General Investment Management Limited – 20,176,586 shares
Putnam Investment Management, Inc/The Putnam Advisory Company, Inc. – 20,757,069

Conversion and redemption of preference shares

During the year, the Company repurchased 30,349 non-voting deferred shares. These deferred shares were issued upon the conversion of preference shares and were immediately repurchased by the Company and cancelled. Further details are set out in note 26 on page 72.

2003 Annual General Meeting

Full details of the resolutions to be proposed at the meeting are set out in the Notice of Annual General Meeting enclosed with this document, and a summary can be found on page 87. Carlton encourages the participation of all investors at its Annual General Meetings. Procedures at the Company's Annual General Meeting will continue to be in compliance with the Code.

AUDITORS

A resolution to reappoint PricewaterhouseCoopers as auditors will be proposed at the 2003 Annual General Meeting.

CREDITOR PAYMENT POLICY

The Group does not follow any particular code on payment practice. Operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted and making those suppliers aware of the terms of payment. It is Group policy that payments to all suppliers are made in accordance with the agreed terms, provided that the supplier is also complying with all relevant terms and conditions.

Trade creditor days of the Company for the year ended 30 September 2002 were 30 days, based on the ratio of Company trade creditors at the year-end to the amounts invoiced during the year by trade creditors.

DONATIONS

The Group made charitable donations of £0.3m (2001: £1.1m) in the year. The Group made no political donations.

REMUNERATION REPORT

GENERAL POLICY

In determining the remuneration packages of the executive directors, the remuneration committee has regard to two fundamental principles:

- the importance of recruiting and retaining management of the highest calibre; and
- linking reward to the Company's performance.

The committee has applied these principles to develop remuneration packages which:

- provide a competitive base salary designed to attract and retain executive directors of the highest calibre and to reflect their role and experience;
- provide incentive arrangements which are subject to challenging performance targets, reflect the Company's objectives and recognise the importance of motivating management to focus on annual, as well as longer-term, performance; and
- directly align the interests of the executive directors with those of shareholders.

REMUNERATION PACKAGE

The four components of the remuneration package are base salary and benefits, annual cash bonus, long-term incentive arrangements and pension. The following sections provide an outline of current practice with regard to each component.

BASE SALARY AND BENEFITS

Base salary and benefits are determined on an annual basis by the committee after a review of the individual's performance and market trends. For guidance, the committee has regard to available research and published remuneration information on comparable companies. Salary policy within the rest of the Group is also taken into consideration. Benefits typically include a car and life, disability and health insurance. The value of benefits is not pensionable.

The executive directors waived any increase in base salary for the year under review. M P Green and G M Murphy have also waived any increase in base salary for the 2002/03 financial year.

ANNUAL CASH BONUS

The directors' annual performance-related cash bonus scheme provides executive directors with an incentive to achieve demanding short-term performance targets. The bonus earned, which is not pensionable, depends principally upon the Company's performance as measured against a specific target or targets set by the committee each year.

For the year under review, the scheme provided for a bonus of up to 100 per cent of salary, and the targets related to operating performance and individual objectives. M P Green, G M Murphy and P C Murray have waived any bonuses they earned under the scheme.

Table 1 – Directors' emoluments

	Salary £000	Benefits £000	Annual bonus £000	Total 2002 £000	Total 2001 £000
Executive					
M P Green	670	37	–	707	713
G M Murphy[1]	500	98	–	598	849
P C Murray[2]	206	12	–	218	–
Non-executive					
E M de Villiers	35	–	–	35	–
D B Green	35	–	–	35	35
L F Hill	35	–	–	35	35
Sir Sydney Lipworth	35	–	–	35	35
Sir Brian Pitman	35	–	–	35	35
Current directors total	1,551	147	–	1,698	1,702
Previous directors					
B A Cragg[3]	84	11	–	95	384
N N Walmsley[3]	78	5	–	83	329
A D A W Forbes[4]	18	–	–	18	35
	1,731	163	–	1,894	2,450

Notes

(1) Included in G M Murphy's benefits is a payment of £74,712 (2001: £75,566) connected with his pension arrangements.

(2) P C Murray was appointed to the Board on 1 January 2002.

(3) B A Cragg ceased to be a director of the Company on 31 December 2001. The figures set out in Table 1 comprise his salary and benefits until that date. Thereafter, in settlement of contractual rights under his service agreement, he received compensation totalling £295,000. Gains made on early vesting of long-term incentive arrangements are detailed in note 1 to Table 2 and details of the pension arrangements are disclosed in note 5 to Table 5. N N Walmsley ceased to be a director of the Company on 31 December 2001. The figures set out in Table 1 comprise his salary and benefits until that date. Thereafter, in settlement of contractual rights under his service agreement, he received compensation totalling £309,000 including the value of benefits. Gains made on early vesting of long-term incentive arrangements are detailed in note 1 to Table 2. On 14 January 2002 the Company entered into a consultancy agreement with N N Walmsley until 30 September 2003 for a total fee of £50,000.

(4) A D A W Forbes retired from the Board on 28 February 2002.

(5) For the purposes of Schedule 6 to the Companies Act 1985:

a) the director with the highest total emoluments for 2002 was M P Green, and for 2001 was G M Murphy. The accumulated total accrued pension in 2002 for M P Green was £134,000 as set out in Table 5 below, and in 2001 for G M Murphy was £2,000;

b) directors' emoluments totalled £2,468,000 in 2001.

LONG-TERM INCENTIVE ARRANGEMENTS

Share options

Directors can participate in the Sharesave scheme and options granted to them under that scheme are included in Table 2. They can also be granted options under the Carlton Executive Share Option Scheme 1999. During the year under review directors were granted options under this scheme, details of which are included in Table 2. These options were granted as part of a phased grant. The exercise of executive share options is subject to satisfaction of performance conditions set by the committee.

Table 2 – Options

	Scheme	Options held on 1 October 2001	DABS/LTIS awards vested during the year	Options granted during the year	Options lapsed during the year	Options held on 30 September 2002	Option Price	Exercise Period
M P Green	EXEC	28,712	–	–	–	28,712	282p	1996-2003
	EXEC	40,000	–	–	–	40,000	358.4p	1998-2005
	EXEC	230,188	–	–	–	230,188	530p	2001-2008
	EXEC	202,657	–	–	–	202,657	602p	2003-2010
	EXEC	158,031	–	–	–	158,031	772p	2003-2010
	EXEC	238,859	–	–	–	238,859	561P	2004-2011
	EXEC	315,047	–	–	–	315,047	319P	2004-2011
	Sharesave	5,164	–	–	–	5,164	334p	2003-2004
	DABS	23,718	–	–	–	23,718	Nominal	1999-2003
	DABS	20,331	–	–	–	20,331	Nominal	2001-2007
	DABS	–	1,953	–	–	1,953	Nominal	2002-2007
	LTIS	38,675	–	–	–	38,675	Nominal	2000-2003
	LTIS	28,590	–	–	–	28,590	Nominal	2001-2007
	LTIS	–	79,075	–	–	79,075	Nominal	2002-2007
G M Murphy	EXEC	250,000	–	–	–	250,000	800p	2003-2010
	EXEC	178,253	–	–	–	178,253	561p	2004-2011
	EXEC	235,109	–	–	–	235,109	319p	2004-2011
	Sharesave	3,552	–	–	3,552	–	475p	2006
	Sharesave	–	–	4,545	–	4,545	209p	2005
P C Murray	EXEC	–	–	488,888	–	488,888	225p	2004-2011
	Sharesave	–	–	4,545	–	4,545	209p	2005

Notes

(1) For the year under review, the aggregate gains for all directors' options exercised during the year were £392,184 (2001: £69,000). This figure represents the difference between the market price of option shares at the exercise date and their exercise price. It does not represent the net proceeds received as no account has been taken of option shares which have been retained, the tax liability or, where option shares have been sold, the sale commissions and expenses. It includes gains on exercise by the following individuals who ceased to be directors during the year (i) B A Cragg: gains of £82,192 on the exercise of his vested DABS and LTIS awards and £86,780 on the exercise of DABS and LTIS awards that were permitted to vest early and were exercised during the year; and (ii) N N Walmsley: gains of £103,959 on the exercise of his vested DABS and LTIS awards and £119,251 on the exercise of DABS and LTIS awards that were permitted to vest early and were exercised during the year.

(2) The market price of an Ordinary share on 30 September 2002 was 109p and the range of prices during the year to 30 September 2002 was between 106p and 286p.

(3) There have been no changes in these interests between the year end and the date of this document.

Deferred Annual Bonus Share plan (DABS)

The plan, which operates on an annual basis, provides that a participant may choose to invest up to 50 pr cent of his net (i.e. after tax) annual cash bonus to purchase Carlton Ordinary shares (bonus shares). The investing participant is then conditionally awarded a number of Carlton Ordinary shares (restricted shares) with a value that is the gross (i.e. pre-tax) equivalent of the annual cash bonus so invested. Provided the bonus shares are retained for three years and the participant remains employed by the Group for four years, the restricted shares will vest and thereafter become available to the participant.

The directors' interests in non-vested restricted shares conditionally awarded under this plan are shown in Table 3.

Long-Term Incentive Share plan (LTIS)

During the period, no awards were made under the LTIS plan. It is intended that no further awards will be made in future under this plan.

The LTIS plan provided for a participant to be conditionally awarded a number of Carlton Ordinary shares with a value equating to a percentage of his/her base salary. The percentage was determined by the committee. Provided the participant remained employed by the Group for four years, the Company's performance, measured on the basis of total shareholder return (TSR) (i.e. share price movement and dividends paid) against the FTSE-100 companies over a three year performance period, determined what proportion (if any) of the award would vest at the end of four years. The proportion and targets were determined by the committee.

The directors' interests in non-vested shares conditionally awarded under this plan are shown in Table 3.

Table 3 – DABS and LTIS awards

	Notes	Held on 1 October 2001	Awarded during the year	Vested during the year[3]	Held on 30 September 2002	Exercise period
M P Green	DABS[1]	1,953	–	1,953	–	2002-2007
	DABS[1]	5,411	–	–	5,411	2003-2008
	DABS[2]	6,258	–	–	6,258	2004-2010
	DABS[2]	19,910	–	–	19,910	2005-2010
	LTIS[1]	79,075	–	79,075	–	2002-2007
G M Murphy	DABS[2]	3,138	–	–	3,138	2005-2010

Notes

(1) These conditional awards originally took the form of allocations of Ordinary shares. These have since been converted into options over Ordinary shares. The options are exerciseable at a nominal price and subject to certain conditions being satisfied (as summarised above).

(2) These conditional awards take the form of options granted over Ordinary shares. The options are exercisable at a nominal price and subject to certain conditions being satisfied (as summarised above).

(3) During the year, the last conditions relating to these options were satisfied, they vested and accordingly they are now disclosed in the "Options" Table 2. The aggregate value of options which vested during the year was £161,822 (2001: £522,000). They all related to M P Green (2001: £269,000). These value figures are based on the market price of an Ordinary share on the relevant vesting date. They are notional figures as value is not realised until the option is exercised. Upon exercise, the value is disclosed in the "Options" Table 2, and may differ from such notional value, depending on the share price movement in the intervening period.

(3) There have been no changes in these interests between the year end and the date of this document.

The Carlton Equity Participation Plan (EPP)

The EPP received shareholder approval at the AGM on 1 March 2001. A summary of the main features of the plan is set out below.

Participation in the EPP applies to executive directors and selected senior executives. Participants invited to take part in the EPP are required to commit Carlton shares (EPP shares) by a specified date to qualify for a matching award. Normally a participant is entitled to commit EPP shares to a value of up to 100 per cent of basic salary (save for the first award where the maximum EPP share commitment was to a value of up to 200 per cent of basic salary). A matching award comprises both an award of free shares (in the form of a nil-price option) and an option grant over shares at market value. The extent to which a matching award will vest depends on the participant retaining his/her EPP shares and the performance conditions relating to the matching award being satisfied. The maximum matching award will be free shares equal in number to three times the EPP shares and options (at market value) over an equal number of shares. The principal performance conditions applicable to the first awards will be measured on the basis of the Company's TSR performance against that of other major UK media companies and the FTSE-100 companies. None of the matching award will vest if the Company's TSR is below median for the media comparator group.

On 5 December 2001 the first awards were made under the terms of the EPP, including to the directors as shown in Table 4.

Table 4 – EPP awards

	Option (nil price)	Option (market value)	Held on 30 September 2002	Option price	Vesting date
M P Green	1,786,665		1,786,665	Nominal	Up to 50% on 1 April 2005 and
		1,786,665	1,786,665	225p	the balance on 1 April 2006
G M Murphy	1,333,332		1,333,332	Nominal	Up to 50% on 1 April 2005 and
		1,333,332	1,333,332	225p	the balance on 1 April 2006
P C Murray	733,332		733,332	Nominal	Up to 50% on 1 April 2005 and
		733,332	733,332	225p	the balance on 1 April 2006

Notes

(1) There have been no changes in these interests between the year end and the date of this document.

PENSIONS

All executive directors are eligible to participate in a directors' contributory defined benefit pension scheme, within the main Carlton Communications Plc Group pension scheme. The directors' pension scheme enables members to retire at age 60 with a maximum pension after 30 years' pensionable service equivalent to 2/3rds of final pensionable salary. Pensionable salary is basic salary, excluding bonuses. Final pensionable salary is the average of pensionable salary over the last three years before retirement. On death before retirement, a lump sum equal to four times pensionable salary is paid, together with a spouse's pension of 4/9ths of pensionable salary. Pensions in payment are guaranteed to increase in line with inflation up to 5 per cent a year.

Table 5 – Pensions

The following information relates to the three directors (2001: two directors) who participated during the year in the directors' pension scheme[1]:

Director	Age at 30 September 2002	Director's contributions in the year[2] £000	Increase in accrued pension during the year[3] £000	Accumulated total accrued pension at 30 September 2002 £000
M P Green	54	40	18	134
G M Murphy	46	6	2	3
P C Murray	40	12	5	5

Notes

(1) The pension entitlement shown is that which would be paid annually at the normal date of retirement (age 60), based on service to 30 September 2002.

(2) These relate to the contributions paid in the year by the director under the terms of the scheme.

(3) The increase in accrued pension during the year excludes any increase for inflation.

(4) In addition to G M Murphy's participation in the directors' pension scheme, Company contributions of £112,068 (2001: £113,350) were made during the year into his money purchase pension plan.

(5) B A Cragg and N N Walmsley did not participate in the directors' pension scheme. Company contributions of £500,000 (2001: £134,000) and £87,420 (2001: £87,420) respectively, were made into their money purchase pension plans. The Company contribution made to B A Cragg's pension plan comprised a normal contribution of £291,300 and a special contribution of £208,700.

SERVICE CONTRACTS

G M Murphy's and P C Murray's service agreements are terminable on one year's notice by either party, save on a change of control whereupon for one year thereafter the contract is terminable by the Company on two years' notice.

No executive director has a service contract containing a notice entitlement exceeding one year, except as set out above.

OUTSIDE APPOINTMENTS

Executive directors are encouraged to accept non-executive directorships offered by FTSE-100 and FTSE-250 companies and other organisations which provide industry experience or public service. Outside appointments are subject to prior Board approval, taking into account existing duties and potential conflicts of interest. Fees paid for these services are normally retained by the executive director concerned.

NON-EXECUTIVE DIRECTORS' FEES

The executive directors are responsible for setting the non-executive directors' fees. Non-executive directors do not receive benefits or pension contributions from the Group and do not participate in any Group incentive scheme.

Approved by the Board on 26 November 2002

David Abdoo, LLB, Company Secretary

CORPORATE SOCIAL RESPONSIBILITY

Carlton takes its social and environmental responsibilities seriously.

Carlton engages constructively with enquiries from socially responsible investors and is listed in a number of green and ethical indexes including the Dow Jones Sustainability World Index and FTSE4Good. Carlton also participates in the Media Sector CSR Forum.

Management

The board director responsible for social and environmental issues is Paul Murray, Finance Director.

Carlton's most significant issues are associated with viewers, local communities and employees. We have a duty to viewers to uphold high standards and comply with codes of conduct. We believe that we should be active members of the communities we serve, supporting local causes and championing local issues. Television is a people business, and our ability to attract top talent is enhanced by being recognised as a responsible company.

Our environmental impact is small and the main implication for the business is the cost of purchasing resources such as energy and materials. Our ongoing focus on these issues will improve efficiency and produce cost savings.

Carlton has formal policies covering the environment, human resources and business conduct and is governed by the industry codes applying to programme and advertising content.

Community

In the community our aim is to develop relationships and invest in each region to give a lasting benefit to those that live there. This investment takes many forms including donations, sponsorship of local charities and events, programming and on-air campaigns, providing resources and staff involvement within the communities.

For the year ended 30 September 2002, communities within ITV's Carlton regions – London, West Country, Central, HTV Wales and HTV West – benefited from a total of £0.3m in charitable contributions, none of which were political donations.

The Carlton Television Trust has awarded a total of £4 million to London groups and charities since 1993. Over a third of the grants approved during 2002 were for educational projects benefiting children and young people from minority ethnic communities.

Promoting arts within the regions is crucial for the development of its community. The Newlyn Art Gallery in the West Country, the City of Birmingham Symphony Orchestra, the Royal Shakespeare Company, The Brief Encounters Film Festival in Bristol and London's renowned Donmar Warehouse Theatre are just some of the many arts initiatives within the ITV regions supported by Carlton over the year.

ITV aims to encourage a sense of pride within local communities, as seen in the Carlton Midlander of The Year award in the Central region. The title recognises outstanding contributions to life in the region and those who have worked to raise the prestige of the Midlands.

ITV also works with schools to help encourage and give advice to the youth of today. The West Country region works with Business in the Community, giving talks in local schools about working in the media. The Central region ran the Carlton Schools Tour, a workshop where pupils got the chance to write, produce and present their own news programme from a purpose-built studio in their school.

Carlton Television workshops in Nottingham, Birmingham and Bristol for HTV West give young people the opportunity to develop their creative and artistic talents. In the London region, Carlton celebrated its tenth year of running *Metroland*, a prime-time series for new directors who are also given back-up support and training. A scheme in the Central region, First Cut, gives film-makers the opportunity to produce short films, as does the Carlton London region's support of the London Production Fund.

Diversity

ITV's regions are made up of a diverse population especially Carlton's London and Central regions which are home to 80 per cent of the ethnic population in the UK. Carlton believes it is important to reflect this multi-cultural society on

screen and in the workplace. This principle also applies to representation of disability.

Carlton is tackling these issues by participating in two important networks. In 2000 Carlton spearheaded the Cultural Diversity Network, a cross-industry initiative bringing together all the major broadcasters, for which Carlton is one of the leading supporters. The profile of a similar initiative, the Broadcasters' Disability Network, was also raised in 2002, when Carlton helped to launch all the broadcasters' Action Plans to improve the portrayal and employment of disabled people in and on television.

Carlton has set up a Diversity Steering Group, consisting of representatives from senior Carlton executives whose role it is to drive forward and keep diversity initiatives under review. The key action points of the group are:

- To increase the presence of ethnic minorities and disabled people on screen and in all areas of the workforce.
- To modernise the casting and portrayal of ethnic minorities and the disabled in mainstream programming.
- To create an online talent database and website.
- To raise the profile of diversity issues.
- To increase the access of services and facilities on and off screen.

In 2002 a Diversity Policy, outlining these objectives, was launched to all staff within Carlton's regions to ensure a coherent approach to the issues.

To date, ITV has made significant progress in its pursuit to reflect modern Britain through television, and this continues to improve. For example, *Carlton's Multicultural Achievement Awards* was established to honour some of the most inspirational talent from Britain's ethnic communities and was screened in all of Carlton's regions. In the Central region, the commitment to diversity led to sponsorship of both the Diwali festivities in Leicester and the Mela 2002 exhibition, which was the largest indoor celebration of Asian culture in the UK this year. HTV Wales established a new accredited performing arts course in Cardiff Bay for ethnic minority students and also provided four placements to graduates with disabilities.

These are just examples of the many projects that Carlton's regions support, either through sponsorship, workshops, training, bursaries or work experience to help improve greater representation both on and off screen.

Raising public awareness

Carlton's programming plays an important role in raising public awareness and stimulating debate by regularly covering social and environmental issues.

In the London region *Guns On Our Streets* addressed the problem of a rising gun culture and black on black crime in some parts of the capital. Carlton London also broadcast programmes on the impact of alcohol including advice on safer drinking. Other programmes tackled the lives of children on a housing estate, post-natal depression, green housing and mental health.

HTV and Carlton West Country produced *What On Earth*, a week long series coinciding with the Earth Summit in Johannesburg. HTV's programmes also covered organic gardening, conservation and a controversial landfill site in Rhondda.

Carlton Central's *Teen Week* covered issues facing teenagers including, under-age sex and pregnancy, body-image and drugs. *Teen Week* linked with local organisations and agencies to provided advice and support to the region's young. Central's daily programme *Life Line* kept health issues on the agenda, while *Waterworld* drew attention to wildlife in the region's canals.

ITV is committed to programming that attracts viewers by reflecting regional issues relevant to their lives. Our programmes include award-winning documentaries tackling local community issues such as London's *First Edition: Living in A Box*; Carlton West Country's *How Green is Our Valley*, HTV's *Melting Pot* and Central's *Rock Legends: UB40*.

Carlton also partnered with British Gas, to develop an innovative energy efficiency campaign. The result, Energy Idols, featured children in one minute films telling viewers about their energy saving ideas.

The Workplace

Carlton recognises that the people it employs are critical to its business success. Carlton is a socially responsible employer.

Carlton has a professionally qualified Human Resources department which reports to the Group Human Resources Director who sits on the Group Executive Board of Carlton Communications Plc. Human Resource management within the Group is aligned to a strategic framework, that is approved by the Board, and which covers organisation design, resourcing, performance, development, reward, communication, diversity and health & safety.

Line managers are recognised within Carlton as the key people managers within the business. Carlton equips its managers to manage, assess and develop their teams. Carlton runs management briefing sessions for line managers on core management activities from Diversity and Health & Safety to Performance Review. Specific management training and development needs are identified through managers' own performance reviews.

Performance reviews are conducted formally for the majority of employees at least once per year. Individuals' training and development needs are identified at the performance review to supplement training needs that Carlton has identified as core for specific groups of employees.

Formal policies are in place for key areas of employment, for example Equal Opportunities, Sexual and Racial Harassment, Recruitment, Discipline, Grievance, Internet and e-mail use, Health and Safety, and Family Friendly measures, and are brought to the attention of employees via direct issue, induction, briefings and training.

Carlton is a competitive employer in terms of compensation and benefits with bonus and share option schemes in place to reward contribution and ally incentives with business objectives.

Company-wide communication takes place via two-way meetings, briefings and the intranet. Consultation takes place on key employment issues with employee representatives, direct with individuals and trades unions where appropriate.

The Company does not discriminate between employees or potential employees on grounds of sex, sexual orientation, marital status, religion, colour, race, ethnic origin, age or disability. Full and fair consideration is given to the recruitment, promotion and training of disabled people. To enable the appointment, or continued employment, of a disabled person reasonable adjustments are made to the job, workplace, or way in which the work is organised and retraining provided wherever possible. This year Carlton has launched a disability action-plan which has included traineeships in production for disabled employees.

Carlton sets and manages standards in relation to equal opportunities, for example via its recruitment standards and guidelines, access to training and promotion and legal briefings for managers. Employees are made aware of the Company's position on equal opportunities and diversity via policy, induction and briefings. In addition, managers receive diversity awareness training.

Carlton has introduced a corporate-wide health and safety management system that is endorsed by the Group Executive Board and reinforced through a structured training programme cascaded from the Chief Executive to individual employees. Carlton has similarly introduced a whistle blowing policy across the Group.

Environment

Carlton's environmental impacts arise from its studios, offices and transport. The main issues are our contribution to global warming, use of resources and generation of waste.

The Group environment committee coordinates environmental improvement initiatives and has been instrumental in setting Carlton's first company-wide reduction targets for energy use and recycling. The group targets are to reduce energy use by 6 per cent over three years and to increase paper recycling by 5 per cent in one year.

A combination of proactive management, consolidation of offices and a reduction in staff numbers have all contributed to reduced environmental impacts this year.

Global warming: The total amount of carbon dioxide emitted from energy and transport fell by 10 per cent in 2001/2002. This reduction is mainly due to consolidation of office facilities and a decrease in staff numbers. Reported transport fuel use has also decreased due to improved expense claims procedures.

Carlton Studios did not achieve its target to reduce energy use (reported last year) due to an increase in programme production activity at the Nottingham site.

Recycling: All except for one of our offices have recycling schemes for paper and toner cartridges. The amount of paper recycled decreased by 13 per cent in 2001/2002 for the reasons stated above. Most of our toner cartridges are recycled. The number recycled decreased this year due to the replacement of small printers with Xerox copier machines at Carlton Television (the Xerox cartridges are much larger than toner cartridges requiring less frequent replacement). Our service contract ensures that all Xerox cartridges are recycled.

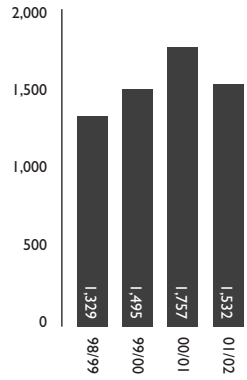
In 2001/2002 Carlton Television purchased approximately 120 tonnes of white paper and recycled approximately 48 tonnes (40 per cent) which includes other sources of waste paper such as newspapers and card. We believe that

there is scope for increasing the proportion of paper recycled and have established a target for 2002/2003 (above).

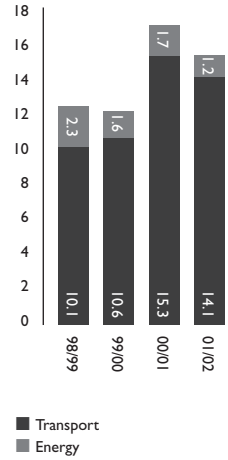
Water use: The amount of water used fell by 2 per cent in 2001/2002. Most of our buildings have water meters and we estimate that the data covers over 70 per cent of the business.

Ozone depletion: We have cooling systems at many of our locations to prevent television equipment from overheating and for air conditioning in the summer. Our sealed systems hold 2.3 tonnes of HCFCs – an ozone depleting gas. There were no releases of HCFCs reported in 2001/2002.

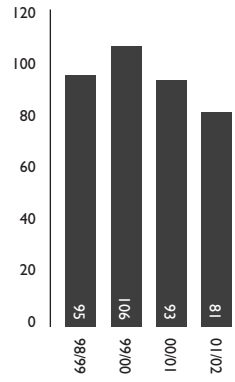
Number of toner cartridges recycled



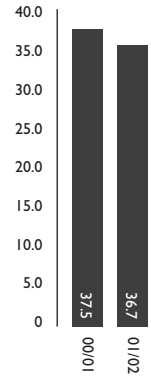
CO_2 emissions from energy and transport (000 tonnes)



Paper recycled (tonnes)

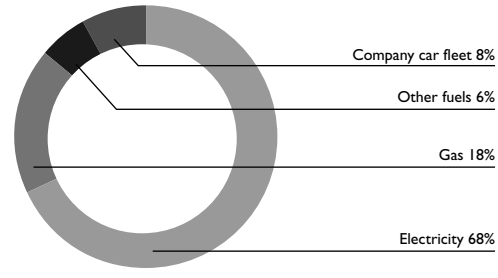


Water use (million litres)



Water data for 2000/2001 has been restated due to a reporting error

CO_2 emissions by source



INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF CARLTON COMMUNICATIONS PLC

We have audited the financial statements which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes, including the additional disclosures included within tables 1 to 5 and related notes of the Directors' Report relating to the remuneration of the directors of Carlton Communications Plc specified for our review by the Financial Services Authority.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Statement, the operating and financial review and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 30 September 2002 and the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
London
26 November 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 September 2002

		2002		
	Notes	Continuing operations £m	Discontinued operations (note 5) £m	Total £m
Turnover		**1,008.7**	**64.1**	**1,072.8**
Less: share of joint ventures		**(44.1)**	**(64.1)**	**(108.2)**
Group turnover	1	**964.6**	**–**	**964.6**
Operating costs before exceptionals		**(911.4)**	**–**	**(911.4)**
Exceptional operating items	4	**4.8**	**–**	**4.8**
Total operating costs		**(906.6)**	**–**	**(906.6)**
EBITDA		**96.5**	**–**	**96.5**
Depreciation		**(23.0)**	**–**	**(23.0)**
Amortisation		**(15.5)**	**–**	**(15.5)**
Group operating profit	1,2	**58.0**	**–**	**58.0**
Share of operating results of joint ventures		**(0.4)**	**(99.1)**	**(99.5)**
Joint ventures' amortisation		**(2.1)**	**–**	**(2.1)**
Share of operating results of associated companies		**(3.0)**	**(2.6)**	**(5.6)**
Total operating profit/(loss)		**52.5**	**(101.7)**	**(49.2)**
Profit on sale of businesses	5	**–**	**11.8**	**11.8**
Loss on termination of businesses	5	**–**	**(98.6)**	**(98.6)**
Profit/(loss) on ordinary activities before interest		**52.5**	**(188.5)**	**(136.0)**
Amounts written off investments	13	**(8.2)**	**–**	**(8.2)**
Net interest payable	6	**(12.0)**	**–**	**(12.0)**
Profit/(loss) on ordinary activities before taxation		**32.3**	**(188.5)**	**(156.2)**
Taxation	7	**(8.6)**	**8.8**	**0.2**
Profit/(loss) on ordinary activities after taxation		**23.7**	**(179.7)**	**(156.0)**
Dividends equity and non-equity	8	**(66.0)**	**–**	**(66.0)**
Retained loss		**(42.3)**	**(179.7)**	**(222.0)**
Earnings per share (pence)				
Basic and diluted	9	**2.0**	**(26.8)**	**(24.8)**

There is no material difference between profits and losses as reported above and historical cost profits and losses.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 September 2001

		2001		
	Notes	Continuing operations £m	Discontinued operations (note 5) £m	Total £m
Turnover		1,051.0	651.6	1,702.6
Less: share of joint ventures		(10.9)	(90.2)	(101.1)
Group turnover	1	1,040.1	561.4	1,601.5
Operating costs before exceptionals		(983.3)	(512.2)	(1,495.5)
Exceptional operating items	4	(52.4)	(6.2)	(58.6)
Total operating costs		(1,035.7)	(518.4)	(1,554.1)
EBITDA		44.2	66.4	110.6
Depreciation		(22.4)	(23.0)	(45.4)
Amortisation		(17.4)	(0.4)	(17.8)
Group operating profit	1,2	4.4	43.0	47.4
Share of operating results of joint ventures		0.4	(175.7)	(175.3)
Joint ventures' amortisation		–	–	–
Share of operating results of associated companies		(8.8)	(9.9)	(18.7)
Total operating loss		(4.0)	(142.6)	(146.6)
Loss on sale of businesses	5	–	(227.0)	(227.0)
Loss on termination of businesses	5	–	–	–
Loss on ordinary activities before interest		(4.0)	(369.6)	(373.6)
Amounts written off investments	13	–	–	–
Net interest payable	6	(35.6)	–	(35.6)
Loss on ordinary activities before taxation		(39.6)	(369.6)	(409.2)
Taxation	7	(3.9)	23.1	19.2
Loss on ordinary activities after taxation		(43.5)	(346.5)	(390.0)
Dividends equity and non-equity	8	(66.1)	–	(66.1)
Retained loss		(109.6)	(346.5)	(456.1)
Earnings per share (pence)				
Basic and diluted	9	(8.1)	(51.6)	(59.7)

SOCIAL RESPONSIBILITY

ENVIRONMENT

Carlton is committed to good environmental performance as an essential part of corporate responsibility. Taking care of the environment also encourages improvements in efficiency.

How we manage environmental issues

In 1998 we established our Group Environment Team, reporting to the Chief Executive, who has board responsibility for environmental affairs. All Group companies have an environmental representative and report environmental performance data, together with targets and objectives, every six months.

Technicolor's operations have the most environmental significance and the company has a team of health, safety and environment specialists to focus on its environmental issues. Technicolor's CD plant in Cwmbran, UK, achieved certification to the international standard for environmental management systems, ISO14001 during 2000.

Covering the environment in programmes

Carlton's programmes regularly cover both local and global environmental issues. These programmes help to raise public awareness and understanding of environmental issues. Examples include: the link between health problems in London and traffic pollution on London Tonight; global warming and its effect on wildlife in the Midlands; and the Water Warriors series in the West Country which engaged children in marine conservation issues.

Environmental Performance

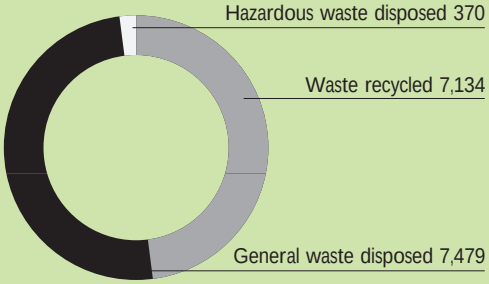
Our operations are not in sectors most commonly associated with pollution of the environment. However, we recognise that we do have an impact on the environment and that we can find opportunities to reduce it. There were no prosecutions for environmental issues during the year.

Global Warming: Like all businesses we use energy and transport fuel which produce emissions of carbon dioxide (CO_2). We have used the UK Government's Guidelines for Company reporting on Greenhouse Gas Emissions to compile our CO_2 emissions data. Our emissions of CO_2 have fallen by 2% to 114,483 tonnes and by 14% when normalised for turnover. Technicolor accounted for 89% of our total CO_2 emissions.

Recycling and wastes: We aim to recycle as much as possible of our wastes which include paper, card, plastics, and film. Technicolor recycled over 7000 tonnes of material representing nearly half of all its wastes. Total wastes disposed at Technicolor reduced 11% to 7,849 tonnes (21% when normalised for turnover). Carlton Media recycled 106 tonnes of materials and Carlton Studios has set a target to reduce waste to landfill by 10%.

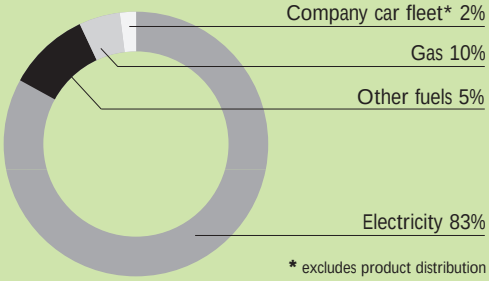
Emissions to air: Technicolor has two principal air emissions issues. Solvents, which may contribute to local smog formation, are used mainly in film cleaning and CD printing. Ozone depleting gases are used in sealed air conditioning and fire prevention systems, which require careful maintenance to ensure that they are not released to the atmosphere.

Waste and Recycling*
Tonnes



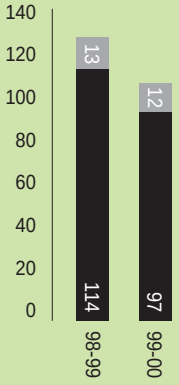
* Technicolor Group only

CO_2 emissions by source



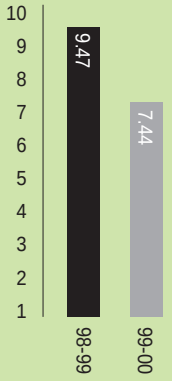
* excludes product distribution

CO_2 emissions from energy and transport*
Tonnes/£Million turnover



Carlton Media
Technicolor
* excludes product distribution

Waste disposed*
Tonnes/£Million turnover



* Technicolor Group only

For further information on Social Responsibility please visit our website www.carlton.com.

Data are management estimates. 1998/99 figures have been corrected due to improved data collection systems.

Technicolor's film and CD plants used 149,350 litres of solvents. At about half of these sites, absorption systems have been installed to recover solvents for re-use.

The amount of ozone depleting chemicals held by Technicolor is: 2.3 tonnes of halons, 2.9 tonnes of CFCs and 3.7 tonnes of HCFCs. Trichloroethane use has been reduced to almost zero since last year. The Carlton Media held 2 tonnes of HCFCs in air conditioning systems.

Water use and discharges: Water is used throughout the company, the biggest user being Technicolor which required 2.2 million m^3. This is a 21% increase on last year, primarily due to increased throughput. Effluent from these sites, particularly film processing, is carefully controlled and discharged according to licenses issued by regulatory authorities.

COMMUNITY ACTION

Carlton plays an active role in the community, with each Carlton company responsible for developing initiatives relevant to its own area. Details of policies are available on our website, www.carlton.com. For the year ended 30 September 2000, Carlton contributed £1.5m in charitable donations and made no political donations.

The main focus of the group's community involvement during the year was ITV's Year of Promise Campaign. Additional activity covered the arts, education, health, the disadvantaged, science and the environment.

The Carlton Television Trust awarded its largest ever grant of £148,600 to Carers National Association, taking total contributions distributed in the London region since 1993 to over £3.5m. Carlton continues to support new talent in the television industry with schemes such as First Cut in the Midlands and The Nuts and Bolts Experience drama workshops in Wales.

ITV'S YEAR OF PROMISE

Year of Promise was an initiative calling upon everyone in the UK to make their mark on the year 2000 with a simple heartfelt promise that would make a positive contribution to the quality of life in the new Millennium. Each of Carlton's regions made a promise at the beginning of 2000 and a summary of their achievements is set out below.

Carlton – London region: Promise – to make a visible and sustainable impact on homelessness in London. As a company Carlton formed a partnership with The London Connection, a day centre working with young homeless people. Over the past year Carlton staff have been involved both corporately and individually, from offering work experience placements and advice surgeries to donating money, goods and time as volunteers.

We have also used our position as a regional broadcaster to raise awareness of the issues surrounding homelessness in London as part of Carlton's Homeless Campaign 2000. The campaign involved a range of programmes and events including a televised debate on the subject of 'London's Homeless', a powerful series of dramatised stories entitled *The Wrong Side Of The Rainbow* and a number of events, including comedy and theatre nights, to raise funds for The London Connection. A range of practical resources for people who may need help, and for those who want to give help, were also produced.

Carlton – Central region: Promise – Carlton Sanctuary 2000. In partnership with Midlands Wildlife Trusts, Carlton has been supporting the protection and promotion of the region's wildlife. The three-year commitment includes funding for Sutton Courtenay Nature Reserve, Wilwell Farm Cutting and Brandon Marsh Nature Reserve. The sites were chosen on the basis of contributing to national and international targets on conservation and biodiversity, whilst providing the community with protected areas to enjoy.

Extending one of our popular regional programme brands, we screened *Heart of the Country – Goes Wild*, a special 6-part series exploring the fascinating flora and fauna of the Midlands. A Study Pack is being developed with local education authorities, to be made available to Year 6 teachers and Carlton staff have been sent regular newsletters and qualify for discounted membership of their local Wildlife Trust.

Carlton – West Country region: Promise – to renovate the Mayflower Steps area of Plymouth. Carlton used the Year of Promise campaign to bring together regional businesses in a heritage project that would provide long term benefits to the community.

The Mayflower Steps area of Plymouth, where the Pilgrim Fathers left on their voyage to the New World, draws many visitors to the West Country and is the focal point for many Americans visiting the UK. The area had become run down and in need of repair. Carlton, along with partners from the private sector, worked with the City Council to remodel and rejuvenate this historic site. The finished project was opened in May this year and a regional current affairs programme was broadcast at the same time.

HTV Wales: Promise – to help drug prevention and tackle drug related problems in Wales. On air, the campaign was spread across news, three special programmes called *A Hell Of A Time*, Community Messages and Crimestoppers. Off-air a major conference was hosted by HTV which included the launch of the National Assembly's strategy on substance misuse. Videos of *A Hell of a Time* were distributed to schools across Wales and HTV employees helped with the refurbishment of three community projects in Swansea, Abergavenny and Bangor.

HTV West: Promise – to promote a healthier West of England. The promise featured in news and other programmes on screen leading to over 15,000 viewers joining the NHS Organ Donors Register and thousands of new Blood Donor Registrations. The Company also organised life-saving classes for all staff on site.

THE WORKPLACE

Carlton is a socially responsible employer. During the year, Carlton established a single framework for group-wide human resources (HR) policies which addresses key objectives for resourcing, employee development, remuneration, communication, health and safety, and diversity and equality of opportunity.

Employment policy

- To recruit and retain the right people for Carlton.
- To develop our employees and optimise their potential.
- To reward employees in a competitive and equitable manner.
- To maintain a culture where business information is shared, Carlton's goals are communicated across the group and individual ideas are fostered.
- To maintain a healthy and safe working environment.
- To promote an environment that maximises equal opportunity for all employees.

Management and accountability: The HR framework and objectives were approved by Nigel Walmsley, Deputy Chief Executive. The HR department is professionally qualified and provides support to managers across the Group. Regular meetings of HR managers and advisors take place to share best practice and monitor processes throughout the Group. A monthly report is submitted to Nigel Walmsley on HR progress and key issues.

Equal opportunities: Carlton is committed to equality of opportunity and does not discriminate between employees or potential employees on grounds of sex, sexual orientation, marital status, religion, colour, race, ethnic origin, age or disability. Full and fair consideration is given to the recruitment, promotion and training of disabled people. To enable the appointment, or continued employment, of a disabled person reasonable adjustments are made to the job, workplace, or way in which the work is organised and retraining provided wherever possible. Managers receive recruitment training, and policies covering equal opportunities, sexual harassment, racial harassment and bullying are distributed to all employees and addressed through induction sessions.

Carlton is widely involved in the promotion of ethnic minority interests both on and off screen. On screen, Carlton has appointed a Producer/Cultural Diversity Adviser and widened the writing and casting boundaries on its network and regional dramas. Looking ahead the Company believes that its new *Crossroads* series will provide expanding opportunities to employ Black and Asian writers and on-screen talent. Off screen, Carlton supports a number of diversity awards such as Women in Film and Television Awards and it produced and broadcast the Ethnic Multicultural Media Awards.

Clive Jones, CEO Carlton Channels, is the first Chairman of the recently launched Cultural Diversity Network, an industry-wide initiative, welcomed in the Government's recent White Paper on Communications, to improve the representation of people from ethnic communities in television, both on and off the screen.

Training: Carlton believes that training and development is crucial to long term business effectiveness. Managers regularly review the performance and development of their teams while the Training Department researches and organises training and courses to meet business needs.

Carlton has recently expanded its Graduate Management Training Scheme which offers structured development and training via project based placements across Carlton's traditional and new media businesses.

Internal communications and stakeholder engagement: Regular staff briefings are held throughout the Group to communicate Company news and to seek feedback from employees. Extensive bonus and share option schemes have been developed to reward effort and to align incentives with the Company's objectives.

CONSOLIDATED BALANCE SHEET

30 September 2002

	Notes	2002 £m	2002 £m	2001 (as restated) £m	2001 (as restated) £m
Fixed assets					
Intangible assets	11		**319.5**		343.9
Tangible assets	12		**110.3**		120.6
Investments in joint ventures:					
– Share of gross assets		**46.3**		174.7	
– Share of gross liabilities		**(43.9)**		(534.4)	
– Loans to joint ventures		**18.9**		418.4	
– Goodwill		**58.2**		36.6	
	13	**79.5**		95.3	
Investments in associated undertakings	13	**6.1**		0.4	
Other investments	13	**409.9**		429.4	
Total fixed asset investments	13		**495.5**		525.1
			925.3		989.6
Current assets					
Stocks	14	**6.3**		7.1	
Programme and film rights	15	**178.5**		187.4	
Debtors: amounts falling due within one year	16	**170.3**		196.7	
Debtors: amounts falling due after more than one year	16	**17.6**		19.9	
Investments	17	**40.6**		214.8	
Cash and other liquid funds	18	**552.9**		256.5	
		966.2		882.4	
Creditors: amounts falling due within one year	19	**(401.6)**		(486.9)	
Net current assets			**564.6**		395.5
Total assets less current liabilities			**1,489.9**		1,385.1
Creditors: amounts falling due after more than one year					
Loans	21	**854.8**		559.0	
Convertible debt	22	**91.3**		97.8	
Finance lease creditors	23	**31.7**		28.9	
Other creditors		**30.5**		33.3	
			1,008.3		719.0
Provisions for liabilities and charges	25		**48.1**		2.4
Net assets			**433.5**		663.7
Capital and reserves					
Called up share capital	26		**41.8**		41.8
Share premium account	28		**151.4**		150.7
Other reserves	28		**17.1**		21.6
Profit and loss account	29		**223.2**		449.6
Shareholders' funds			**433.5**		663.7
Attributable to:					
Equity shareholders' funds (before goodwill)			**1,207.5**		1,437.7
Cumulative goodwill written off directly to reserves			**(937.6)**		(937.6)
Equity shareholders' funds			**269.9**		500.1
Non-equity shareholders' funds	26		**163.6**		163.6
Total shareholders' funds			**433.5**		663.7

M P Green, Director
P C Murray, Director

Approved by the Board on 26 November 2002.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2002

	Notes	2002 £m	2001 £m
Cash flow from operating activities	30(a)	**269.4**	103.3
Dividends received from joint ventures and associated undertakings		**0.8**	1.6
Returns on investments and servicing of finance	30(b)	**(28.5)**	(43.0)
Taxation		**4.2**	3.1
Cash flow after returns on investments, servicing of finance and taxation		**245.9**	65.0
Capital expenditure and financial investment	30(c)	**(126.2)**	(250.4)
Acquisitions and disposals	34	**(7.8)**	273.5
Equity dividends paid		**(55.5)**	(89.2)
Cash outflow before financing		**56.4**	(1.1)
Financing	30(d)	**266.3**	58.7
Increase in cash in the year		**322.7**	57.6

Reconciliation of net cash flow to movements in net debt	Notes	2002 £m	2001 £m
Increase in cash in the year		**322.7**	57.6
Cash inflow from increase in debt		**(269.6)**	(56.6)
Change in net debt resulting from cash flows		**53.1**	1.0
Translation difference and non-cash movement		**(6.4)**	2.6
Movement in net debt in the year		**46.7**	3.6
Opening net debt		**(506.6)**	(510.2)
Closing net debt	31	**(459.9)**	(506.6)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 30 September 2002

	2002 £m	2001 £m
Loss for the financial year	**(156.0)**	(390.0)
Gain on sale of Meridian	**–**	9.2
Exchange differences on foreign currency net investments	**(7.3)**	14.7
Total recognised gains and losses in the year	**(163.3)**	(366.1)

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 30 September 2002

	2002 £m	2001 £m
Loss for the financial year	**(156.0)**	(390.0)
Ordinary and preference dividends	**(66.0)**	(66.1)
Exchange differences on foreign currency net investments	**(7.3)**	14.7
New share capital issued	**0.7**	2.1
Other reserve movements	**(1.6)**	9.0
Goodwill reinstated on sale of businesses	**–**	647.3
Net (decrease)/increase in shareholders' funds	**(230.2)**	217.0
Shareholders' funds at the beginning of the year	**663.7**	446.7
Shareholders' funds at the end of the year	**433.5**	663.7

PRINCIPAL ACCOUNTING POLICIES
30 September 2002

1 BASIS OF PREPARATION
The accounts are prepared under the historical cost convention, modified to include the revaluation of certain investments, and in accordance with the applicable financial reporting and accounting standards. The Group has re-assessed the appropriateness of its accounting policies as prescribed in FRS 18.

Since the previous year end FRS 19 – Deferred Taxation has been adopted. This standard addresses the recognition, on a full provision basis, of deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations. The change in accounting policy has not given rise to any prior year adjustment.

2 CONSOLIDATION AND GOODWILL
The consolidated financial statements incorporate the accounts of the Company's subsidiary undertakings prepared to 30 September 2002. The Company has taken advantage of the exemption in Section 230(1)–(4) of the Companies Act 1985 not to present its own profit and loss account.

Goodwill arising on acquisitions is capitalised as an intangible asset and is amortised on a straight line basis over estimated useful economic lives ranging between 10 and 20 years. Companies acquired have been accounted for as acquisitions. Prior to 30 September 1998 goodwill, whether purchased or arising on consolidation, was written off against reserves in the year it arose.

3 IMPAIRMENT
Impairment reviews are carried out to ensure that goodwill is not carried above its recoverable amount. Any amortisation or impairment write-downs are charged to the profit and loss account.

Goodwill is reviewed for impairment at the completion of the first full year after acquisition and on the occurrence of any event or change in circumstances indicating that there has been a decline in the carrying value or change in useful life.

4 INVESTMENTS
Associates and joint ventures are accounted for in the Group's accounts under the equity method of accounting, as adjusted, where material to conform to the Group's accounting policies. Other fixed asset investments are stated at cost less amounts written off in respect of any permanent diminution in value.

Current asset investments are held at the lower of cost or net realisable value, or where appropriate, under the alternative accounting rules, at current cost based on a directors' valuation.

5 FOREIGN CURRENCIES
Foreign currency debtors and creditors covered by forward currency contracts are translated at the contract rates of exchange; other foreign currency denominated assets and liabilities are translated at closing rates of exchange. Gains and losses are taken to the profit and loss account, except that exchange differences on foreign currency net borrowings to finance foreign currency net investments are taken to reserves, in accordance with SSAP20.

Trading results of overseas subsidiaries are translated at weighted average rates of exchange. Differences resulting from the re-translation of opening net assets and results for the year at closing rates are taken to reserves.

6 BORROWINGS AND FINANCE LEASE CREDITORS
Borrowings are carried at their nominal value with any premium or discount on issue, any pre-issue hedging costs, and any other associated fees offset against the carrying value of the borrowing. Such costs are written off to the profit and loss account over the life of the borrowing if it is dated. The capital element of finance lease creditors is recorded as a liability, with lease rentals split between capital and interest elements. The capital element is applied to reduce the outstanding liability and the interest element is charged against profit.

7 TURNOVER
Turnover, which excludes value added tax and sales between Group companies, represents the value of products and services sold. More particularly, key classes of revenue are recognised as follows:

Advertising – on transmission.
Programme production – on delivery.
Rights – the point that the right sold is available for exploitation.
Facilities – on provision of the service.
Product merchandising – on product delivery.

8 INTANGIBLE FIXED ASSETS
Libraries acquired are valued at fair value on acquisition on the basis of projected cash flows and written off in equal annual instalments over the estimated economic life of the assets over a period of up to 40 years. The useful economic life has been adopted in view of the classical and ongoing appeal of the library titles. All other research, development and marketing expenditure is written off as incurred, with the exception of certain programme development expenditure (see point 11 below).

9 TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at historical cost less accumulated depreciation and any provision for impairment. Depreciation is generally provided by equal annual instalments at the following rates:

Freehold property excluding land	2% – 4%
Leasehold property	period of lease
Plant and equipment	10% –33%

Depreciation is not charged on freehold land.

10 STOCKS

Stocks and work in progress are valued at the lower of cost and net realisable value.

11 PROGRAMME PRODUCTION AND DEVELOPMENT

Programmes in production and acquired programmes are stated at the lower of cost and net realisable value. Programme material is written off fully on first transmission, except for certain film rights which are written off over a number of transmissions.

12 LIQUID FINANCIAL INSTRUMENTS

Liquid financial instruments are stated at the lower of cost and market value. Interest and other income is dealt with in the period in which it arises.

13 PENSIONS

The Group maintains a number of defined benefit and defined contribution based pension schemes in the UK. The costs of defined benefit schemes are determined by external actuaries and charged against profits each year under SSAP24. The costs of defined contribution schemes are charged against profits in the year in which they are incurred.

FRS 17 – Retirement Benefits. This standard addresses the measurement and valuation of retirement benefit pension schemes. The Group has continued to adopt the transitional arrangements as prescribed in FRS 17 (see note 3c).

14 DEFERRED TAXATION

Full provision is made for deferred tax liabilities arising from timing differences in respect of transactions or events that result in an obligation to pay tax in the future, that have originated but not reversed by the balance sheet date. A deferred tax asset is not recognised to the extent that recoverability is uncertain. Deferred tax liabilities and assets which are recognised are not discounted.

To the extent that, at the balance sheet date, dividends from overseas undertakings have been accrued as receivable or an overseas undertaking has entered into a binding agreement for the future distribution of its past earnings, appropriate amounts are provided.

15 OPERATING LEASES

The rental costs arising from operating leases are charged to the profit and loss account in the year in which they are incurred.

16 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group uses a limited number of derivative financial instruments to hedge its exposure to fluctations in interest and foreign exchange rates.

The Group does not hold or issue derivative instruments for speculative purposes.

Interest rate swap and option agreements are used to manage the interest basis of borrowings. Interest receipts and payments under these agreements are accrued so as to match the net income or cost with the related finance expense. No amounts are recognised in respect of future periods. Gains and losses on early termination of interest rate swaps or on repayment of the borrowing are spread over the life of the original contract or borrowing.

NOTES TO THE ACCOUNTS

For the year ended 30 September 2002

1 DIVISIONAL AND GEOGRAPHICAL INFORMATION

(a) Divisional analysis

In the view of the directors, following the disposal of Technicolor in 2001, Carlton has only one continuing business segment which includes interests in broadcasting, content and screen advertising.

	Group turnover		Group operating profit	
(b) Geographical analysis, by destination	**2002** £m	**2001** £m	**2002** £m	**2001** £m
United Kingdom	**918.3**	962.1	**48.5**	49.8
Europe	**18.8**	22.7	**3.4**	4.0
US	**17.0**	43.2	**0.2**	1.3
Other (including Japan)	**10.5**	12.1	**1.1**	1.7
	964.6	1,040.1	**53.2**	56.8
Exceptional items – UK	**–**	–	**4.8**	(52.4)
Continuing operations	**964.6**	1,040.1	**58.0**	4.4
Discontinued operations	**–**	561.4	**–**	43.0
	964.6	1,601.5	**58.0**	47.4

Discontinued operations in 2001 comprise primarily Technicolor.

	Group turnover		Group operating profit		Operating net assets	
(c) Geographic analysis, by origin	**2002** £m	**2001** £m	**2002** £m	**2001** £m	**2002** £m	**2001** £m
United Kingdom and Europe	**956.1**	1,007.0	**54.9**	57.0	**480.8**	529.3
US	**8.5**	33.1	**(1.7)**	(0.2)	**(0.1)**	20.9
	964.6	1,040.1	**53.2**	56.8	**480.7**	550.2
Exceptional items – UK	**–**	–	**4.8**	(52.4)	**–**	–
Continuing operations	**964.6**	1,040.1	**58.0**	4.4	**480.7**	550.2
Discontinued operations	**–**	561.4	**–**	43.0	–	–
	964.6	1,601.5	**58.0**	47.4	**480.7**	550.2

Reconciliation of operating net assets to net assets	**2002** £m	**2001** £m
Operating net assets	**480.7**	550.2
Investments	**536.1**	739.6
Corporation tax	**(88.5)**	(83.5)
Deferred tax	**(1.4)**	(2.4)
Net borrowings	**(459.9)**	(506.6)
Proposed dividend	**(33.5)**	(33.6)
	433.5	663.7

2 GROUP OPERATING PROFIT

	2002 £m	2001 £m
Turnover	**1,072.8**	1,702.6
Less: Share of joint ventures' turnover	**(108.2)**	(101.1)
Group turnover	**964.6**	1,601.5
Cost of sales (including Percentage of Qualifying Revenue)	**(697.9)**	(1,210.5)
Gross profit	**266.7**	391.0
Distribution costs	**(77.7)**	(92.0)
Administration expenses – recurring	**(135.8)**	(193.0)
Administration expenses – exceptional	**4.8**	(58.6)
Group operating profit	**58.0**	47.4
Group operating profit is stated after charging:		
Depreciation of tangible fixed assets	**23.0**	45.4
Amortisation of intangible fixed assets	**15.5**	17.8
Hire of plant and machinery	**0.8**	2.4
Other operating lease rentals	**8.5**	15.8
Auditors' remuneration (1)	**0.6**	0.6

(1) The Group employs PricewaterhouseCoopers on assignments additional to their statutory audit duties where their expertise and experience with the Group are important, principally for due diligence reporting on acquisitions and disposals. During the year PricewaterhouseCoopers earned fees for UK non-audit services totalling £1.2m (2001: £0.9m). The auditors' remuneration includes £17,000 (2001: £18,500) in respect of the parent company audit.

3 EMPLOYEE NUMBERS, REMUNERATION AND PENSION COSTS

(a) Employee numbers and remuneration

The average number of persons employed by the Group during the year, including executive directors, was as follows:

	2002	2001
Production	**1,818**	5,887
Selling and distribution	**589**	1,877
Administration	**593**	1,301
	3,000	9,065
The number of employees at 30 September	**2,787**	3,257

Group employee costs – all employees including executive directors	£m	£m
Aggregate gross wages and salaries paid to the Group's employees	**92.9**	222.5
Employers' national insurance contributions	**7.9**	19.1
Employers' pension contributions	**8.0**	2.8
Total direct costs of employment	**108.8**	244.4

The information on directors' remuneration set out in tables 1 to 5 on pages 34 to 39 forms part of these accounts.

3 EMPLOYEE NUMBERS, REMUNERATION AND PENSION COSTS (CONTINUED)

(b) Pension costs under SSAP 24

The Group operates a number of funded defined benefit and defined contribution schemes in its principal locations. Pension costs for the defined benefit schemes are assessed in accordance with actuarial advice and are charged to the profit and loss account so as to recognise the cost over the working lifetime of the employees. Actuarial valuations of these schemes have been carried out by independent actuaries in accordance with local legislative requirements. The accounting and funding policies differ to the extent that funding valuations may be based on more conservative assumptions and surpluses and deficits may be recognised more quickly for funding purposes. Details of the assumptions and methods used, for accounting purposes, for the main schemes are given below:

				Principal Actuarial Assumptions					
Pension Fund	Latest Full Actuarial Valuation	Valuation of Assets: Actuarial	Valuation of Assets: Market	Valuation Method Adopted	Average Investment Rate of Return	Average Salary Increases	Average Pension Increases	Spreading Method	Fund Assets/ Accrued Benefits
Carlton Group	1 July 2001	£105.7m	£105.7m	Projected Unit	6.0%	4.0%	2.5–3.0%	Level % pay	93.5%
Central	31 March 2002*	£247.5m	£247.5m	Attained age	5.7–6.7%	3.8%	3.6%	Straight line	96.0%
HTV	1 August 2000	£108.6m	£108.6m	Attained age	5.5–6.5%	4.8%	2.8%	Level % pay	109.0%

*In view of the difficult market conditions, the triennial valuation of the Central scheme was brought forward. The figures above are based on the draft valuation which is expected to be approved by the Trustees on 17 December 2002. In accordance with SSAP 24 the charge against profits in 2002 of £2.5m reflects the proposed increase in contributions from 1 April 2002 to eliminate the scheme's current deficit.

The net pension cost of the defined benefit schemes was £7.6m (2001: £2.3m). The net pension cost of the defined contribution schemes was £0.4m (2001: £0.5m). At 30 September 2002 accrued pension costs were £4.6m (2001: £1.4m).

Cash contributions and charges against profits relating to the defined benefit schemes are shown below:

Pension Fund	Actual **2002** £m	Forecast **2003** £m
Carlton Group		
Cash contributions	**3.8**	4.2
% contributions	**9.1%**	10.0%
Charge against profits	**4.1**	4.2
Central		
Cash contributions	**0.1**	4.4
% contributions	**n/a**	27.0%
Charge against profits	**2.5**	4.4
HTV		
Cash contributions	**1.0**	1.0
% contributions	**20.7%**	20.7%
Charge against profits	**1.0**	1.0
Total		
Cash contributions	**4.9**	9.6
Charge against profits	**7.6**	9.6

3 EMPLOYEE NUMBERS, REMUNERATION AND PENSION COSTS (CONTINUED)

(c) Pensions disclosures under FRS 17 transitional requirements

Under the transitional requirements of FRS 17 "Retirement Benefits", the impact that the new accounting standard would have had on the accounts, had it been adopted in the year, is disclosed below. The full actuarial valuations as shown in note 3(b) above have been updated to 30 September 2002 by qualified independent actuaries in accordance with FRS 17.

The major assumptions used by these actuaries were:

	30 September	
	2002	**2001**
Discount rate	**5.5%**	6.0%
Retail price index	**2.25%**	2.5%
Salary increases	**3.75%**	4.0%
Pension increases	**2.25–3.0%**	2.5–3.0%

The following amounts at 30 September 2002 and 2001 were measured in accordance with the requirements of FRS 17:

	2002 £m	**2001** £m
Total market value of assets	**357.1**	394.9
Present value of scheme liabilities	**(480.6)**	(414.7)
Deficit in the schemes	**(123.5)**	(19.8)
Related deferred tax asset	**37.1**	5.9
Net pension liability	**(86.4)**	(13.9)

The assets in the scheme and expected rate of return as at 30 September 2002 and 2001 were:

	30 September 2002		30 September 2001	
	Long-term rate of return	Total £m	Long-term rate of return	Total £m
Equity	**8.5%**	**200.2**	8.0%	248.6
Corporate bonds	**5.2%**	**40.3**	6.0%	30.6
Gilts	**4.5%**	**105.4**	5.0%	100.3
Property	**8.5%**	**4.3**	8.0%	4.4
Other	**4.0%**	**6.9**	5.0%	11.0
		357.1		394.9

If these amounts had been recognised in the financial statements, the Group's net assets and profit and loss account at 30 September 2002 and 2001 would have been as follows:

	2002 £m	**2001** £m
Net assets excluding SSAP 24 pension liability	**438.1**	665.1
FRS17 pension liability	**(86.4)**	(13.9)
Net assets including FRS 17 pension liability	**351.7**	651.2
Profit and loss account excluding SSAP 24 pension liability	**227.8**	451.0
FRS17 pension reserve	**(86.4**)	(13.9)
Profit and loss account including FRS17 pension reserve	**141.4**	437.1

3 EMPLOYEE NUMBERS, REMUNERATION AND PENSION COSTS (CONTINUED)

The following amounts would have been recognised in the performance statements in the year to 30 September 2002 under the requirements of FRS17:

	£m
Operating profit	
Current service cost	7.1
Past service cost	0.1
Total charge to operating profit	**7.2**
Other finance income	
Expected return on schemes' assets	27.3
Interest on schemes' liabilities	(24.6)
Total amount credited to other finance income	**2.7**
Statement of total recognised gains and losses	
Actual return less expected return on schemes' assets	(54.0)
Experience gains and (losses) arising on schemes' liabilities	(24.0)
Changes in actuarial assumptions underlying the present value of the schemes' liabilities	(26.1)
Actuarial loss recognisable in statement of total recognised gains and losses	**(104.1)**
Movement in deficit during the year	
Deficit in schemes at beginning of year	(19.8)
Total charge to operating profit	(7.2)
Contributions	4.9
Other finance income	2.7
Actuarial loss	(104.1)
Deficit in schemes at end of year (pre-tax)	**(123.5)**

Since the HTV and Central schemes are both closed to new entrants, the service cost for these two schemes will increase under the projected unit method as the members approach retirement. This does not necessarily result in an increase in cash contributions.

Details of experience gains and losses for the year to 30 September 2002	
Difference between the expected and actual return on schemes' assets:	
Amount (£m)	(54.0)
Percentage of schemes' assets	(15%)
Experience gains and losses on schemes' liabilities:	
Amount (£m)	(24.0)
Percentage of the present value of schemes' liabilities	(5%)
Total amount recognised in statement of total recognised gains and losses:	
Amount (£m)	(104.1)
Percentage of the present value of schemes' liabilities	(22%)

4 EXCEPTIONAL OPERATING ITEMS

In 2002 there were exceptional reorganisation and restructuring costs of £2.8m, asset write-downs of £7.1m and a goodwill impairment of £3.9m offset by £18.6m of litigation net income. A tax credit of £2.0m arises on these items.

In 2001 there were exceptional reorganisation and restructuring costs of £58.6m, mainly relating to digital business closures and downsizing. A tax credit of £2.1m arose on these items.

5 DISCONTINUED OPERATIONS

	2002 £m	2001 £m
ITV Digital and ITV Sport Channel – discontinued trading	**(99.1)**	(175.7)
Other digital media businesses:		
– Discontinued trading	**(2.6)**	(16.1)
– Loss on sale of investments	**(6.1)**	–
Profit on sale of Technicolor	**17.9**	403.2
ITV Digital and ITV Sport Channel – exceptional closure costs	**(98.6)**	–
Technicolor – discontinued trading	**–**	49.2
Goodwill written back	**–**	(630.2)
Loss before tax	**(188.5)**	(369.6)
Tax credit	**8.8**	23.1
Loss after tax	**(179.7)**	(346.5)

Discontinued operations in 2002 relate to the pre-closure results and closure cost provisions for ITV Digital and ITV Sport Channel, pre-sale results and loss on disposal of other digital media businesses and further post-acquisition receipts from the disposal of Technicolor. The 2001 results have been restated to include ITV Digital and ITV Sport Channel and other digital media businesses in discontinued operations.

The tax credit reflects the offset by consortium or other relief of discontinued operations losses against profits in continuing operations.

6 NET INTEREST PAYABLE

	2002 £m	2001 (as restated) £m
Interest receivable and similar income:		
Bank deposits	**18.7**	5.1
Loan notes	**4.0**	5.8
Interest receivable on funding to joint ventures and associates	**2.5**	3.0
	25.2	13.9
Interest payable and similar charges:		
Bank loans and overdrafts	**(2.7)**	(6.9)
Loan notes	**(6.0)**	(3.7)
Other loans	**(24.9)**	(33.9)
Interest payable on finance leases	**(0.2)**	(0.7)
Amortisation of fees and foreign exchange	**(0.7)**	(1.6)
Other	**(0.2)**	0.3
Share of joint ventures' and associates' interest payable	**(2.5)**	(3.0)
	(37.2)	(49.5)
Net interest payable	**(12.0)**	(35.6)

£14.4m of interest in 2002 relating to ITV Digital and ITV Sport Channel has not been shown in joint ventures' interest payable or Group interest receivable due to the closure of these businesses. The 2001 comparatives, for interest receivable and interest payable have been restated by £22.1m accordingly.

7 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of tax credit for the year

	2002 £m	2001 £m
United Kingdom corporation tax based on the profits for the year at 30% (2001: 30%)	**(0.6)**	16.4
Overseas taxation	**(0.8)**	(3.3)
Adjustments in respect of overseas taxation for prior years	**–**	(0.2)
Share of joint ventures' and associated undertakings' tax	**0.6**	(0.3)
Current tax (charge)/credit for the year	**(0.8)**	12.6
Deferred taxation	**1.4**	6.6
Adjustments in respect of deferred taxation for prior years	**(0.4)**	–
Tax credit for the year	**0.2**	19.2

(b) Factors affecting current tax (charge)/credit for the year

The current tax (charge)/credit for the year is lower (2001: lower) than the standard rate of corporation tax in the UK (30%). The difference is explained below:

	2002 £m	2001 £m
Loss on ordinary activities before taxation	**(156.2)**	(409.2)
Tax credit at 30% (2001: 30%)	**46.8**	122.7
(Increase)/decrease resulting from:		
Exceptional items and discontinued operations	**(44.3)**	(95.8)
Amortisation	**(4.6)**	(4.1)
Other permanent differences	**1.6**	(1.2)
Other timing differences	**(0.2)**	(8.3)
Overseas income taxed at other than UK statutory rate	**(0.1)**	(0.5)
Adjustments in respect of prior years	**–**	(0.2)
Current tax (charge)/credit for the year	**(0.8)**	12.6

(c) Factors that may affect future tax charges

The Group has overseas deferred tax assets of US$7.5m, principally in respect of film rights and carried forward losses in relation to companies in the United States, which have not been recognised. These deferred tax assets can only be recovered against suitable taxable profits generated in the United States.

8 DIVIDENDS PAID AND PROPOSED

	2002 £m	2001 £m
Interim of 3.275p per Ordinary share (2001: 3.275p per share)	**22.0**	22.0
Proposed final dividend of 5.0p per Ordinary share (2001: 5.0p per share)	**33.5**	33.6
Ordinary dividends – equity	**55.5**	55.6
Dividends paid on 6.5p Preference shares	**10.5**	10.5
Preference dividends – non-equity	**10.5**	10.5
Total dividends	**66.0**	66.1

9 EARNINGS PER SHARE

	2002			2001		
	Earnings £m	Weighted average number of shares millions	Per share amount pence	Earnings £m	Weighted average number of shares millions	Per share amount pence
Loss attributable to shareholders	**(156.0)**			(390.0)		
Preference dividends (note 8)	**(10.5)**			(10.5)		
Basic earnings	**(166.5)**	**670.7**	**(24.8)**	(400.5)	670.0	(59.7)
Effect of dilutive securities						
Options	**–**	**–**		–	0.8	
Other	**–**	**0.2**		–	1.0	
Diluted earnings	**(166.5)**	**670.9**	**(24.8)**	(400.5)	671.8	(59.7)
Reconciliation to continuing operations pre-exceptionals earnings per share						
Basic earnings	**(166.5)**	**670.7**	**(24.8)**	(400.5)	670.0	(59.7)
Discontinued operations	**179.7**		**26.8**	346.5		51.6
Continuing operations – post-exceptionals	**13.2**		**2.0**	(54.0)		(8.1)
Exceptional items	**(6.8)**		**(1.0)**	50.3		7.5
Continuing operations – pre-exceptionals	**6.4**	**670.7**	**1.0**	(3.7)	670.0	(0.6)

Continuing operations pre-exceptionals earnings per share has been provided to illustrate the underlying performance of the Group before exceptional items.

10 COMPANY BALANCE SHEET

	Notes	2002 £m	2002 £m	2001 (as restated) £m	2001 (as restated) £m
Fixed assets					
Tangible assets	12	**27.8**		28.7	
Investments	13	**2,275.8**		2,590.0	
			2,303.6		2,618.7
Current assets					
Other debtors	16	**110.2**		345.6	
Investments	17	**38.6**		213.9	
Cash and other liquid funds	18	**331.5**		19.7	
		480.3		579.2	
Creditors: amounts falling due within one year	19	**(715.1)**		(1,086.3)	
Net current liabilities			**(234.8)**		(507.1)
Total assets less current liabilities			**2,068.8**		2,111.6
Creditors: amounts falling due after more than one year					
Loans	21	**854.8**		559.0	
Convertible debt	22	**91.3**		97.8	
			946.1		656.8
Provisions for liabilities and charges	25		**33.9**		0.6
Net assets			**1,088.8**		**1,454.2**
Capital and reserves					
Called up share capital	26		**41.8**		41.8
Share premium account	28		**151.4**		150.7
Other reserves	28		**449.8**		758.6
Profit and loss account	29		**445.8**		503.1
Shareholders' funds			**1,088.8**		1,454.2
Attributable to:					
Equity shareholders' funds			**925.2**		1,290.6
Non-equity shareholders' funds	26		**163.6**		163.6
Total shareholders' funds			**1,088.8**		1,454.2

M P Green, Director
P C Murray, Director

Approved by the Board on 26 November 2002.

11 INTANGIBLE FIXED ASSETS

	Goodwill £m	Film libraries and other £m	Total £m
Group			
Cost at 1 October 2001	238.4	126.9	365.3
Expenditure	–	0.2	0.2
Adjustment in respect of deferred consideration	(3.5)	–	(3.5)
Transfers to tangible fixed assets	–	(1.8)	(1.8)
At 30 September 2002	**234.9**	**125.3**	**360.2**
Amortisation at 1 October 2001	13.7	7.7	21.4
Charge for the year	16.6	2.8	19.4
Transfers to tangible fixed assets	–	(0.1)	(0.1)
At 30 September 2002	**30.3**	**10.4**	**40.7**
Net book value at 30 September 2002	**204.6**	**114.9**	**319.5**
Net book value at 30 September 2001	224.7	119.2	343.9

The charge for the year includes £3.9m impairment included within exceptional operating items (see note 4).

12 TANGIBLE FIXED ASSETS

	Land and buildings		Plant and equipment £m	Total £m
	Freehold £m	Leasehold £m		
(a) Group				
Cost at 1 October 2001	27.4	34.2	84.3	145.9
Expenditure	0.2	0.1	11.4	11.7
Transfers from intangible fixed assets	–	–	1.8	1.8
Disposals	(0.1)	(0.8)	(2.6)	(3.5)
At 30 September 2002	**27.5**	**33.5**	**94.9**	**155.9**
Depreciation at 1 October 2001	1.1	5.2	19.0	25.3
Charge for the year	0.4	4.7	17.9	23.0
Transfers from intangible fixed assets	–	–	0.1	0.1
Disposals	–	(0.7)	(2.1)	(2.8)
At 30 September 2002	**1.5**	**9.2**	**34.9**	**45.6**
Net book value at 30 September 2002	**26.0**	**24.3**	**60.0**	**110.3**
Net book value at 30 September 2001	26.3	29.0	65.3	120.6

The net book value of short leasehold property is £9.9m (2001: £11.7m) and is included above in leasehold land and buildings.

12 TANGIBLE FIXED ASSETS (CONTINUED)

	Land and buildings		Plant and equipment	Total
	Freehold £m	Leasehold £m	£m	£m
(b) Company				
Cost at 1 October 2001	23.7	5.3	3.5	32.5
Expenditure	0.1	–	–	0.1
Disposals	(0.1)	–	(0.3)	(0.4)
At 30 September 2002	**23.7**	**5.3**	**3.2**	**32.2**
Depreciation at 1 October 2001	0.9	0.9	2.0	3.8
Charge for the year	0.2	0.2	0.4	0.8
Disposals	–	–	(0.2)	(0.2)
At 30 September 2002	**1.1**	**1.1**	**2.2**	**4.4**
Net book value at 30 September 2002	**22.6**	**4.2**	**1.0**	**27.8**
Net book value at 30 September 2001	22.8	4.4	1.5	28.7

The net book value of short leasehold property is £1.2m (2001: £1.4m) and is included above in leasehold land and buildings.

13 FIXED ASSETS INVESTMENTS

	Joint ventures £m	Associated undertakings £m	Other investments £m	Own shares held £m	Total £m
(a) Group					
Cost and funding					
At 1 October 2001	58.7	0.4	418.4	11.0	488.5
Additions	8.7	44.6	0.5	–	53.8
Disposals	–	–	(12.5)	–	(12.5)
Loans advanced	108.3	13.7	0.1	–	122.1
Loans repaid or discharged	(2.6)	(44.8)	–	–	(47.4)
Share of retained loss	(121.5)	(7.8)	–	–	(129.3)
Exchange differences and other	0.3	–	0.9	(0.3)	0.9
At 30 September 2002	**51.9**	**6.1**	**407.4**	**10.7**	**476.1**
Goodwill					
At 1 October 2001	36.6	–	–	–	36.6
Additions during the year	27.1	–	–	–	27.1
Amortisation	(2.1)	–	–	–	(2.1)
Exchange differences and other	(3.4)	–	–	–	(3.4)
At 30 September 2002	**58.2**	**–**	**–**	**–**	**58.2**
Provision					
At 1 October 2001	–	–	–	–	–
Provision for impairment (see notes below)	30.6	–	–	8.2	38.8
At 30 September 2002	**30.6**	**–**	**–**	**8.2**	**38.8**
Net book value at 30 September 2002	**79.5**	**6.1**	**407.4**	**2.5**	**495.5**
Net book value at 30 September 2001	95.3	0.4	418.4	11.0	525.1

13 FIXED ASSETS INVESTMENTS (CONTINUED)

i) Joint ventures

Included within joint ventures is the Group's 50 per cent share of the consolidated results and balance sheet of ITV Digital Holdings Limited and ITV Sport Channel Limited.

Following the appointment of the Liquidators to ITV Digital plc (the principal operating subsidiary of ITV Digital Holdings Limited) and the decision to close ITV Sport Channel, full provision has been made against the Group's share of their net assets. A summary of the results and net assets is set out below:

	2002 £m	2001 £m
Tangible fixed assets	–	51.9
Current assets	–	102.4
Liabilities due within one year (excluding shareholder loans)	–	(100.2)
Shareholder loans	–	(416.9)
Net liabilities	–	(362.8)

	2002 £m	2001 (as restated) £m
Turnover	**64.1**	90.2
Loss before interest	**(99.1)**	(175.7)
Interest payable	**–**	–
Loss after interest	**(99.1)**	(175.7)

£14.4m of interest payable in 2002 relating to ITV Digital and ITV Sport Channel has not been shown in the analysis above due to the closure of these businesses. The 2001 comparatives have been restated by £22.1m accordingly.

ii) Other investments

Other investments include 15.5m of shares in Thomson carried at book value at 30 September 2002 of £401.4m (2001: £400.4m). The market value at 30 September 2002 was £155.3m (2001: £207.4m). The Thomson shares are carried at €41.2 compared with a year-end price of €15.9. The shares have traded between €15.7 and €36.7 in the last year and the closing price on 22 November 2002 (the last practical date before signing these accounts) was €20.3.

iii) Own shares held

Own shares held comprise listed Carlton Ordinary shares held within an Employee Share Ownership Trust and a Qualifying Employee Share Ownership Trust. The shares are held to cover awards under employee share plans. Nil-price share options are allocated to shares held in the Employee Share Ownership Trust and the market price at date of grant of these options is amortised over the vesting period.

The value of own shares held has been assessed against the year end share price of £1.09 and a provision for impairment of £8.2m has been made. The impairment excludes certain nil-price DABS and LTIS options already amortised below £1.09.

The year end market values and book values of the shares held by the Group are as follows:

	2002			2001		
	Number of Ordinary shares held	Market value £m	Book value £m	Number of Ordinary shares held	Market value £m	Book value £m
Employee Share Ownership Trust	1,822,172	1.9	1.7	2,016,126	2.7	7.9
Qualifying Employee Share Ownership Trust	696,177	0.8	0.8	696,177	0.9	3.1
	2,518,349	2.7	2.5	2,712,303	3.6	11.0

13 FIXED ASSETS INVESTMENTS (CONTINUED)

	Subsidiary undertakings		Joint ventures and Associated undertakings		Other	Own shares	
	Equity £m	Loans £m	Equity £m	Loans £m	investments £m	held £m	Total £m
(b) Company							
Cost at 1 October 2001	2,947.1	92.5	196.3	417.4	493.8	8.1	4,155.2
Additions	0.2	21.1	10.1	122.4	0.2	–	154.0
Disposals and repayments	–	(72.2)	(5.7)	(5.3)	(11.8)	–	(95.0)
Other movements	(0.2)	(1.1)	–	(0.7)	1.1	–	(0.9)
At 30 September 2002	**2,947.1**	**40.3**	**200.7**	**533.8**	**483.3**	**8.1**	**4,213.3**
Provisions at 1 October 2001	950.5	–	152.3	385.3	77.1	–	1,565.2
Provisions in the year	233.6	3.5	–	129.3	–	5.9	372.3
At 30 September 2002	**1,184.1**	**3.5**	**152.3**	**514.6**	**77.1**	**5.9**	**1,937.5**
Net book value at 30 September 2002	**1,763.0**	**36.8**	**48.4**	**19.2**	**406.2**	**2.2**	**2,275.8**
Net book value at 30 September 2001	1,996.6	92.5	44.0	32.1	416.7	8.1	2,590.0

A list of the Company's principal operating subsidiary undertakings is given in note 37.

14 STOCKS

	2002 £m	2001 £m
Work in progress	**1.7**	1.8
Finished goods	**4.6**	5.3
	6.3	7.1

There is no material difference between the replacement cost of stocks and their carrying value.

15 PROGRAMME AND FILM RIGHTS

	2002 £m	2001 £m
Programmes in production	**24.7**	27.0
Completed programmes and film rights	**153.8**	160.4
	178.5	187.4

16 DEBTORS

	Group		Company	
	2002 £m	2001 (as restated) £m	2002 £m	2001 £m
Amounts falling due within one year:				
Trade debtors	**121.9**	135.5	**1.6**	2.8
Amounts owed by subsidiary undertakings	**–**	–	**94.6**	333.7
UK and overseas taxes recoverable	**–**	–	**0.6**	0.8
Other debtors	**24.0**	32.7	**–**	–
Prepayments and accrued income	**24.4**	28.5	**13.4**	8.3
	170.3	196.7	**110.2**	345.6
Amounts falling due after more than one year:				
Prepayments and accrued income	**17.6**	19.9	**–**	–

The comparative figure for trade debtors has been reduced by £18.0m to reflect when amounts become receivable. The corresponding amount has been added to accrued income falling due after more than one year.

17 CURRENT ASSET INVESTMENTS

	Group		Company	
	2002	**2001**	**2002**	**2001**
	£m	£m	£m	£m
Loan notes	**32.8**	206.5	**32.8**	206.5
Certificates of tax deposit	**7.5**	7.5	**5.5**	5.5
Other	**0.3**	0.8	**0.3**	1.9
	40.6	214.8	**38.6**	213.9

The loan notes were issued to the Group in 2001 by Thomson as part of the Technicolor sale. The notes have a nominal value of US$50m and mature in March 2003 and are supported by bank guarantee. The notes accrue interest at 6 month $ LIBOR plus 0.15% with all interest being compounded and cash settled at the maturity date of the notes. These non-quoted loan notes are held at directors' valuation.

18 CASH AND OTHER LIQUID FUNDS

	Group		Company	
	2002	**2001** (as restated)	**2002**	**2001**
	£m	£m	£m	£m
Cash at bank and in hand	**552.9**	256.5	**331.5**	19.7

Cash at bank and in hand comprises bank deposits which have a maximum maturity of twenty-four hours and interest earned is based on that available in the overnight money market.

£202.0m of 2001 overdrafts have been offset, where permitted under FRS 13, against cash balances in order to be consistent with the 2002 treatment.

19 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2002	**2001** (as restated)	**2002**	**2001**
	£m	£m	£m	£m
Overdrafts and short-term borrowings (see note 20)	**35.0**	77.4	**35.0**	77.4
Trade creditors	**56.8**	120.2	**0.8**	5.8
Amounts owed to subsidiary undertakings	**–**	–	**633.5**	953.4
Corporation tax	**88.5**	83.5	**–**	–
Other tax and social security	**17.1**	11.4	**–**	–
Other creditors	**24.1**	27.0	**–**	–
Accruals and deferred income	**146.6**	133.8	**12.3**	16.1
Dividends	**33.5**	33.6	**33.5**	33.6
	401.6	486.9	**715.1**	1,086.3

£202.0m of 2001 overdrafts have been offset, where permitted under FRS 13, against cash balances in order to be consistent with the 2002 treatment.

The comparative figure for accruals and deferred income falling due within one year has been reduced by £22.7m to reflect when amounts become payable. The corresponding amount has been added to other creditors falling due after more than one year.

20 OVERDRAFTS AND SHORT TERM BORROWINGS

	Group		Company	
	2002	**2001** (as restated)	**2002**	**2001**
	£m	£m	£m	£m
Overdrafts	**–**	20.1	**–**	20.1
Loans due within one year	**35.0**	55.2	**35.0**	55.2
Loan notes and other short term borrowings	**–**	2.1	**–**	2.1
	35.0	77.4	**35.0**	77.4

The loans repayable within one year comprise loan notes issued under the Company's £1,000m Euro Medium Term Note programme.

£202.0m of 2001 overdrafts have been offset, where permitted under FRS 13, against cash balances in order to be consistent with the 2002 treatment.

21 LOANS

	Group		Company	
	2002	**2001**	**2002**	**2001**
	£m	£m	£m	£m
Repayable:				
Between one and two years	**–**	101.0	**–**	101.0
Between two and five years	**605.8**	11.5	**605.8**	11.5
Over five years	**249.0**	446.5	**249.0**	446.5
	854.8	559.0	**854.8**	559.0

Loans repayable between two and five years comprise an unsecured £200m Eurobond stated net of the costs of issue which has a coupon of 7.625% and matures in June 2007, loan notes totaling £11.5m issued under the Company's £1,000m Euro Medium Term Note programme and an unsecured €638.6m Exchangeable bond stated net of the costs of issue which has a coupon of 2.25% and matures in January 2007. The Exchangeable bond can be exchanged at any time at the option of investors into the Company's 15.5m shares in Thomson at an exchange price of €41.2 per share. The investors also hold the right to put the bonds back to the Company in January 2005. The Company has the right to redeem the bonds at par on or after 4 July 2003 if the underlying shares in Thomson have traded at a 30% premium to the exchange price of €41.2 on 20 consecutive trading days in any period of 30 trading days.

Loans repayable between one and two years as at 30 September 2001 comprise loan notes issued under the Company's £1,000m Euro Medium Term Note programme.

During the year the Company repurchased €105m of the €150m March 2003 loan notes issued under the Company's Euro Medium Term Note programme for a total consideration (excluding accrued interest purchased) of €104.2m.

Loans repayable after five years comprise an unsecured £250m Eurobond stated net of the costs of issue which has a coupon of 5.625% and matures in March 2009 and unsecured loan notes totaling £0.9m.

All loans are repayable other than by instalment.

The Company has total committed bank facilities of £100m under a syndicated facility which matures in April 2006. The facility was undrawn at 30 September 2002.

22 CONVERTIBLE DEBT

	Group		Company	
	2002 £m	**2001** £m	**2002** £m	**2001** £m
Exchangeable Capital Securities	**91.3**	97.8	**91.3**	97.8

The US$150m undated Exchangeable Capital Securities are divided into 6,000,000 Exchangeable Capital Securities of US$25 per security with a coupon of 8% per annum, and were redeemable at the option of the Company from 7 October 1998 at US$26 per security reducing each year until 7 October 2003 from which time the redemption price will be US$25 per security. The Exchangeable Capital Securities rank senior to the Preference shares of the Company in the event of a winding up. The Exchangeable Capital Securities are exchangeable at the option of the Company at any time into Cumulative US Dollar-denominated Redeemable Preference shares of US$0.01 each in the Company on a one-for-one basis. The rights of such Preference shares are summarised in note 26.

23 FINANCE LEASE CREDITORS

	Group		Company	
	2002 £m	**2001** £m	**2002** £m	**2001** £m
Repayable:				
Between one and two years	**1.1**	0.9	**–**	–
Between two and five years	**5.8**	3.8	**–**	–
Over five years	**24.8**	24.2	**–**	–
	31.7	28.9	**–**	–

Included within finance leases due after one year is £30.2m (2001: £27.4m) in relation to the sale and leaseback of rights associated with programme production.

24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

A summary of the Treasury objectives, policies and strategies together with a description of the Group's interest rate and currency management is set out in pages 27 to 28 of the Finance Director's Report.

For the purposes of the disclosures which follow in this note (other than in the currency risk disclosures), short-term debtors and creditors which arise directly from the Group's operations have been excluded as permitted under FRS 13.

(a) Interest rate risk profile

Financial assets

Financial assets of the Group which earn interest are cash and other liquid funds (see note 18) and loan notes held in Thomson (see note 17). As at 30 September 2002 the Thomson loan notes were paying a weighted average floating rate of 1.98%. The interest rate profile of the financial assets of the Group by currency denomination as at 30 September 2002 is shown below:

	As at 30 September 2002			As at 30 September 2001		
	Total £m	Floating £m	Non interest bearing £m	Total £m	Floating £m	Non interest bearing £m
Thomson shares	**401.4**	**–**	**401.4**	400.4	–	400.4
Sterling Cash	**502.4**	**502.4**	**–**	251.0	251.0	–
Dollar Cash	**50.5**	**50.5**	**–**	5.5	5.5	–
US Dollar Loan Notes	**32.8**	**32.8**	**–**	206.5	206.5	–
Total	**987.1**	**585.7**	**401.4**	863.4	463.0	400.4

As at 30 September 2002 the US dollar Thomson loan notes were paying a weighted average floating rate of 1.98%.

24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

Financial liabilities

The interest rate profile of the financial liabilities of the Group by currency denomination as at 30 September 2002 is shown below:

	As at 30 September 2002					As at 30 September 2001				
					Fixed rate					Fixed rate
	Total £m	Floating £m	Fixed £m	Weighted average rate at 30 September %	Weighted average time for which rate is fixed Years	Total £m	Floating £m	Fixed £m	Weighted average rate at 30 September %	Weighted average time for which rate is fixed Years
Sterling Preference shares	**163.6**	**–**	**163.6**	**6.50**	**2.5**	163.6	–	163.6	6.50	3.5
Sterling debt	**474.4**	**447.4**	**27.0**	**5.83**	**13.0**	218.8	189.8	29.0	5.83	14.0
US dollar debt	**538.4**	**538.4**	**–**	**–**	**–**	544.3	446.5	97.8	7.25	–
Total	**1,176.4**	**985.8**	**190.6**	**6.41**	**4.2**	926.7	636.3	290.4	6.69	–

The Preference shares are described in note 26. The weighted average time for which the rate is fixed on these Preference shares has been calculated on the assumption that the Company redeems the shares at the earliest opportunity.

Sterling fixed rate liabilities in 2002 relate to finance lease creditors (see note 23). Sterling floating rate borrowing mainly comprises the €638.6m Exchangeable bond which was swapped with effect from May 2002 from its fixed rate cost of 2.25% into a floating rate cost of 1 month sterling Libor minus 2.81% on a notional amount of £394.9m until January 2005 and £46.5m private placement loan notes issued under the £1,000m Euro Medium Term Note programme. The private placement loan notes have been issued in a range of currencies and swapped back to sterling to give a financing cost ranging between 6 month Libor plus 0.19% and 0.48%.

Dollar floating rate borrowing comprises the £200m and £250m Eurobonds (see note 21) and the US$150m Exchangeable Capital Securities (see note 22) which have been swapped into floating rate dollars as follows:

The sterling bonds were swapped with effect from June 2001 (£200m bond) and September 2001 (£250m bond) from their fixed rates of 7.625% and 5.625% respectively into 6 month dollar Libor plus 0.75% (but payable in sterling) subject to a knock-in commencing from December 2002 (£200m bond) and September 2002 (£250m bond) such that if the 6 month dollar rate fixing is at or below 3.75% there is no net swap payment or receipt relating to that 6 month period only. In addition both sterling bonds have been swapped for a period of 3 years commencing December 2001 and September 2001 respectively from 6 month dollar Libor plus 0.75% to 6 month dollar Libor plus 0.415% and 0.42% respectively set in arrears (if the rate setting at the start of the relevant 6 month period is above 3.75%). Under the swap terms the bank also has the option (commencing from December 2004 for the £200m bond and September 2004 for the £250m bond) to choose between the floating rate cost of 6 month dollar Libor plus 0.75% or 6 month sterling Libor minus 0.1% either being set in advance or in arrears (if the dollar rate setting at the start of the relevant 6 month period is above 3.75%). In addition with effect from March 2002 for any dollar rate settings in advance above 6.5% the margin under the swap is increased by an additional 1% for that 6 month period only. Finally with effect from September 2002 the £250m bond has been swapped into 6 month dollar Libor plus 1.075% plus a further potential additional margin (but payable in sterling) including if the dollar rate setting in advance for any given 6 month period is at or below 3.75%. Further potential additional margin (to be applied with effect from September 2002) arises to the extent that on a one for one basis the 1 year dollar swap rate observed on 5 November 2003 exceeds each of the strike levels of 4.0%, 4.5% and 5.0% on £125m notional and to the extent that on a one for one basis the 1 year dollar swap rate observed on 17 December 2003 exceeds each of the strike levels of 3.8%, 4.05% and 4.25% on £125m notional. As at 30 September 2002 the implied 1 year dollar swap rates on 5 November 2003 and 17 December 2003 were 2.68% and 2.79%.

The Group entered into a cancellable swap with effect from February 1999 with a potential maturity of October 2028 which is matched against the US$150m Exchangeable Capital Securities. Under the swap the Group receives 8% (to match the coupon on the securities) and pays the higher of 7.25% or 3 month dollar Libor plus 0.25%. For all periods to date this resulted in a payment of 7.25%. The payment basis of the swap was amended with effect from September 2002 to 3 month dollar Libor plus 2.65% set in arrears or advance at the bank's option. The swap is cancellable at the bank's option from October 2003 onwards. If the bank exercises this option it must pay the Group US$6m.

24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

(b) Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial assets and financial liabilities as at 30 September 2002.

	As at 30 September 2002		As at 30 September 2001	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Overdrafts and short-term borrowings (note 20)	**(35.0)**	**(33.8)**	(77.4)	(77.4)
Loans (notes 21 and 23)	**(886.5)**	**(753.0)**	(587.9)	(580.4)
Convertible debt (note 22)	**(91.3)**	**(49.6)**	(97.8)	(98.0)
Preference shares (note 26)	**(163.6)**	**(139.5)**	(163.6)	(157.1)
	(1,176.4)	**(975.9)**	(926.7)	(912.9)
Cash and other liquid funds (note 18)	**552.9**	**552.9**	256.5	256.5
Equity interest in Thomson (note 13)	**401.4**	**155.3**	400.4	207.4
Loan notes held in Thomson (note 17)	**32.8**	**32.8**	206.5	206.5
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps, swaptions and caps	**3.5**	**13.4**	–	(3.9)
Derivative financial instruments held or issued to hedge the currency exposure on expected future sales and purchases:				
Forward foreign exchange contracts	**9.3**	**7.8**	–	(5.8)

Market values have been used to determine the fair value of listed Preference shares, debt issued, equity interest in Thomson, cash, interest rate and foreign exchange derivatives. The Thomson loan notes which are not listed have been included at directors' valuation.

(c) Gains/(losses) on hedging contracts

The table below details gains/(losses) on hedging contracts at 30 September 2002:

	Deferred			Unrecognised		
	Gains £m	Losses £m	Total net gains/(losses) £m	Gains £m	Losses £m	Total net gains/(losses) £m
Gains/(losses) on hedges at 1 October 2001	–	(2.1)	(2.1)	12.2	(22.0)	(9.8)
Losses/(gains) arising in previous years that were recognised in 2002	–	0.3	0.3	(8.2)	3.9	(4.3)
Gains/(losses) arising in 2002 that were not recognised in 2002	–	(9.3)	(9.3)	26.6	(2.3)	24.3
Gains/(losses) on hedges at 30 September 2002	–	(11.1)	(11.1)	30.6	(20.4)	10.2
Of which:						
Gains/(losses) expected to be recognised in 2003	–	(4.5)	(4.5)	16.1	(4.1)	12.0
Gains/(losses) expected to be recognised in 2004 or later	–	(6.6)	(6.6)	14.5	(16.3)	(1.8)

The deferred loss of £9.3m arising in 2002 relates to the purchase of a €425m currency call option for £11.0m less premium written off during the year of £1.7m.

(d) Maturity profile

The maturity profile of cash and other liquid funds can be found in note 18 and the maturity profile of the Thomson loan notes is detailed in note 17. The maturity profile for financial liabilities can be found in notes 20, 21, 22 and 23. The unamortised issue costs associated with the loans and convertible debt are immaterial.

24 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

(e) Currency exposures

The table below shows the Group's currency exposures i.e. those transactional (or non-structural) exposures that give rise to the net currency gains and losses in the profit and loss account. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the operating unit involved. As at 30 September 2002 these exposures were as follows:

	As at 30 September 2002			As at 30 September 2001		
	Net foreign currency monetary assets/(liabilities)			Net foreign currency monetary assets/(liabilities)		
	US dollar £m	Swiss franc £m	Total £m	US dollar £m	Swiss franc £m	Total £m
Functional currency of Group operation						
Sterling	(26.3)	(41.1)	(67.4)	40.7	(51.4)	(10.7)
Total	(26.3)	(41.1)	(67.4)	40.7	(51.4)	(10.7)

25 PROVISIONS FOR LIABILITIES AND CHARGES

	Closure of businesses £m	Deferred taxation £m	Total £m
a) Group			
At 1 October 2001	–	2.4	2.4
Profit and loss account – current	64.0	(1.4)	62.6
Profit and loss account – prior	–	0.4	0.4
Utilised	(17.3)	–	(17.3)
At 30 September 2002	**46.7**	**1.4**	**48.1**
b) Company			
At 1 October 2001	–	0.6	0.6
Profit and loss account – current	41.5	0.8	42.3
Utilised	(9.0)	–	(9.0)
At 30 September 2002	**32.5**	**1.4**	**33.9**

The provision for closure of businesses relates to the closure of ITV Digital and ITV Sport Channel as disclosed in note 13. The majority of the provision is expected to be utilised within one year from 30 September 2002.

Deferred taxation

	Group		Company	
	2002 £m	**2001** £m	**2002** £m	**2001** £m
Deferred taxation comprises:				
Accelerated capital allowances	**0.2**	1.3	**1.7**	1.5
Short-term timing differences	**(0.5)**	(1.3)	**(0.2)**	(0.8)
Other	**1.7**	2.4	**(0.1)**	(0.1)
At 30 September 2002	**1.4**	2.4	**1.4**	0.6

26 CALLED UP SHARE CAPITAL

	2002 £m	2001 £m
Authorised		
1,221,285,011 Ordinary shares of 5p each (2001: 1,208,461,346)	**61.1**	60.4
168,714,989 6.5p (net) Cumulative Convertible Redeemable Preference shares of 5p each (2001: 168,755,902)	**8.4**	8.5
Nil 5.5p (net) Cumulative Convertible Preference shares of 5p each (2001: 12,782,752)	**–**	0.6
	69.5	69.5
	US$m	US$m
15,000,000 Cumulative US Dollar-denominated Redeemable Preference shares of US$0.01 each (2001: 15,000,000)	**0.2**	0.2
	£m	£m
Allotted, called up and fully paid		
671,951,686 Ordinary shares of 5p each (2001: 671,774,439)	**33.6**	33.6
163,564,861 6.5p (net) Cumulative Convertible Redeemable Preference shares of 5p each (2001: 163,605,774)	**8.2**	8.2
	41.8	41.8

The following changes have taken place in the issued share capital of the Company during the year to 30 September 2002:

On 7 November 2001, 166,683 shares were issued to satisfy deferred consideration in connection with the acquisition of Action Time Holdings Limited.

The 6.5p Preference shares became convertible on 31 March 1991 and continue to be so on each anniversary (or on the next business day) thereafter until 2005 on the basis of 25.83975 Ordinary shares for every 100 6.5p Preference shares.

On 2 April 2002, 40,913 6.5p Preference shares were converted, in accordance with the articles of association, by a process of consolidation and subdivision into 10,564 Ordinary shares and 30,349 non-voting Deferred shares. The Deferred shares were subsequently repurchased by the Company as detailed below. The Company has the option to redeem the outstanding 6.5p Preference shares at £1 per share on 30 April 2005 (or on the next business day) and on each anniversary thereafter until 30 April 2010, when any 6.5p Preference shares outstanding will be redeemed at £1 per share.

In accordance with the articles of association, during the year the Company repurchased for an aggregate consideration of 1p, and then cancelled all 30,349 non-voting Deferred shares of 5p each issued upon the conversion of 6.5p Preference shares. All authorised unissued Deferred share capital has converted into authorised unissued Ordinary share capital.

On 7 October 1993, 6,000,000 Exchangeable Capital Securities of US$25 per security were issued by the Company which are exchangeable at the option of the Company at any time into Cumulative US Dollar-denominated Redeemable Preference shares of US$0.01 each in the Company ("Dollar Preference shares"). No Dollar Preference shares had been issued as at 30 September 2002. The Dollar Preference shares carry a dividend entitlement of US$2.25 per share per annum and are redeemable at the option of the Company from 7 October 1998 at a price of US$26.125 per share, reducing each year until 7 October 2003 from which time the redemption price will be US$25 per share.

By resolution passed on 28 February 2002, shareholders' authority was obtained for the Company to make market purchases of its own shares up to a maximum of 67,174,000 Ordinary shares and 16,360,000 6.5p Preference shares to expire on the earlier of 27 February 2003 and the date of the Company's Annual General Meeting.

Each of the two classes of Preference shares ranks pari passu for dividends or other returns of capital, in priority to any other class of shares. None of the Preference shares has voting rights except in the event of winding up or following dividend arrears of greater than six months. In the event of a winding up the 6.5p Preference shares have a liquidation preference of £1 per share and the Dollar Preference shares have a liquidation preference of US$25 per share.

Non-equity shareholders' funds comprise £163.6m (2001: £163.6m) in respect of 6.5p Preference shares.

27 SHARE OPTIONS

At 30 September 2002, options and awards had been granted and remained outstanding over 44,235,636 new Ordinary shares as follows:

Option schemes	Notes	Exercise period	Exercise price	Number of shares
Executive share option grants	(a)	15.12.95 – 13.01.12	215p – 800p	22,017,692
Equity participation plan	(b)	01.04.05 – 04.12.11	225p	9,338,892
Equity participation plan	(b)	01.04.05 – 04.12.11	Nominal	9,338,892
Carlton Sharesave scheme	(c)	01.12.01 – 31.07.07	209p – 475p	3,540,160

(a) The normal exercise period for executive options is between 3 and 10 years from the date of grant. Some options have been granted on terms that allow part of the option to vest from one year after date of grant.

(b) The equity participation plan comprises both an award of free shares (in the form of a nil-price option) and an option grant over shares at market value on date of grant. The figures above are the maximum that could potentially vest contingent on certain performance conditions being satisfied. See page 38 for further details.

(c) Under the terms of the Carlton Sharesave scheme, employees entered into a savings contract for a period of either 3 or 5 years at amounts varying between £5 and £250 per month. The normal exercise periods for options granted under this scheme are the six month period following the third anniversary of the date of grant in respect of the three year savings contracts and the six month period following the fifth anniversary of the date of grant in respect of the five year savings contracts.

28 SHARE PREMIUM ACCOUNT AND OTHER RESERVES

	Share Premium account £m	Other reserves £m
(a) Group		
At 1 October 2001	150.7	21.6
Deferred contingent consideration	0.7	(1.6)
Transfer to profit and loss account	–	(2.9)
At 30 September 2002	**151.4**	**17.1**
(b) Company		
At 1 October 2001	150.7	758.6
Deferred contingent consideration	0.7	(1.6)
Amounts written off investments	–	(213.1)
Transfer to profit and loss account	–	(94.1)
At 30 September 2002	**151.4**	**449.8**

At 30 September 2002, other reserves of the Company, which were non-distributable, comprised (a) £217.0m (2001: £231.9m) being the remaining balance of special reserves created on the cancellation of the share premium account in previous years, (b) £225.0m (2001: £514.5m) being the amounts arising on the application of section 131(2) of the Companies Act 1985, £213.1m of the movement in the year is due to amounts written off investments (c) £0.2m (2001: £4.6m) being an estimate of the shares to be issued by way of part consideration for the purchase of Planet 24 Limited in the event of certain performance targets being achieved and (d) £7.6m (£2001: £7.6m) being a capital redemption reserve created on conversion of Preference shares to Ordinary shares.

29 PROFIT AND LOSS ACCOUNT

	Group	Company
	£m	£m
At 1 October 2001	449.6	503.1
Loss for the financial year	(156.0)	(81.5)
Dividends	(66.0)	(66.0)
Transfer from other reserves	2.9	94.1
Exchange differences	(7.3)	(3.9)
As at 30 September 2002	**223.2**	**445.8**

Exchange differences in the Group are net of the movement on foreign currency borrowings and balance sheet hedging of £1.9m (2001: £4.8m). Included within the Company's profit and loss account at 30 September 2002 was an amount of £264.3m (2001: £205.0m) which was not distributable at that date.

30 CASH FLOW

	2002	2001
	£m	£m
(a) Cash flow from operating activities		
Operating profit	**58.0**	47.4
Depreciation	**23.0**	45.4
Amortisation	**19.4**	17.8
Stocks	**0.8**	(8.8)
Programme and film rights	**8.9**	9.6
Debtors	**12.2**	(28.6)
Creditors	**(33.5)**	20.5
Sale of current asset investments	**179.0**	–
Non-cash fixed asset impairment	**1.8**	–
Profit on sale of fixed assets	**(0.2)**	–
	269.4	103.3
(b) Returns on investment and servicing of finance		
Interest received	**43.4**	15.5
Interest paid	**(61.4)**	(48.0)
Preference dividends paid	**(10.5)**	(10.5)
	(28.5)	(43.0)
(c) Capital exenditure and financial investment		
Purchase of tangible fixed assets	**(11.7)**	(43.1)
Purchase of intangible assets	**(0.2)**	(6.6)
Disposal of intangible and tangible fixed assets	**0.9**	10.5
Payments to ITV Digital/ITV Sport Channel	**(96.8)**	(190.3)
Other net investments	**(18.4)**	(20.9)
	(126.2)	(250.4)
(d) Financing		
Issue of shares	**–**	2.1
Net change in long-term funding	**266.3**	56.6
	266.3	58.7

Included within cash flow from operating activities is a £18.6m net cash inflow (2001: £5.1m outflow) in respect of the exceptional operating items of £4.8m (2001: £58.6m). The remaining £13.8m (2001: £53.5m) comprises £11.0m (2001: £42.9m) asset write offs and £2.8m (2001: £10.6m) of accrued income expenses. See note 4.

31 ANALYSIS OF NET DEBT

	1 October 2001 (as restated) £m	Cash flow £m	Exchange and non-cash movements £m	1 September 2002 £m
Cash at bank and in hand	256.5	302.6	(6.2)	**552.9**
Overdrafts	(20.1)	20.1	–	**–**
	236.4	322.7	(6.2)	**552.9**
Loan notes and short-term borrowings	(2.1)	1.2	0.9	**–**
Loans due within one year	(55.2)	55.2	(35.0)	**(35.0)**
	(57.3)	56.4	(34.1)	**(35.0)**
Loans due after more than one year	(559.0)	(323.2)	27.4	**(854.8)**
Convertible debt	(97.8)	–	6.5	**(91.3)**
Finance lease creditors	(28.9)	(2.8)	–	**(31.7)**
	(685.7)	(326.0)	33.9	**(977.8)**
Net debt	**(506.6)**	**53.1**	**(6.4)**	**(459.9)**

Non-cash movements principally comprise loan reclassifications.

32 CAPITAL EXPENDITURE – CONTRACTED FOR

	Group		Company	
	2002 £m	**2001** £m	**2002** £m	**2001** £m
Expenditure on tangible assets – contracted for	**3.1**	**2.8**	–	0.1

33 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating leases

As at 30 September 2002 the Group had minimum annual commitments under non-cancellable leases as follows:

	2002			**2001**		
	Land & Buildings £m	Other £m	Total £m	Land & Buildings £m	Other £m	Total £m
Operating leases which expire:						
Within one year	**0.5**	**–**	**0.5**	0.5	0.2	0.7
After one year but within five years	**2.8**	**0.4**	**3.2**	3.3	0.9	4.2
After five years	**4.7**	**–**	**4.7**	4.7	0.1	4.8
	8.0	**0.4**	**8.4**	8.5	1.2	9.7

(b) Guarantees

The Company and certain of its UK subsidiaries have entered into cross-guarantees in connection with the Group's UK banking arrangements. At 30 September 2002 subsidiary overdrafts amounting to £16.6m (2001: £38.1m) were covered by guarantees given by the Company.

(c) Disposals

Contingent liabilities exist in respect of warranties and indemnities given to Thomson pursuant to the Technicolor disposal agreement. Provision has been made against any anticipated payments.

34 ACQUISITIONS AND DISPOSALS

Net cash outflow of £7.8m (2001: £273.5m inflow) from acquisitions and disposals comprises £31.0m for the acquisition of Screenvision Holdings (Europe) Limited and £23.2m further post-acquisition receipts from the disposal of Technicolor in 2001.

The Group acquired a 50% interest in Screenvision Holdings (Europe) Limited in June 2002. The goodwill held in this joint venture entity is stated after provisional fair value adjustments.

35 RELATED PARTY TRANSACTIONS

The Group entered into the following material transactions with related parties during the year:

	2002 £m	2001 £m
Sales to joint ventures	3.9	13.1
Sales to associated companies	2.8	–
Purchases from joint ventures	8.2	7.3
Purchases from associates	19.4	20.6
Amounts owed by joint ventures	–	0.9
Loans owed by joint ventures	19.7	–
Amounts owed by associated undertakings	0.7	–
Loans owed by associated undertakings	0.2	30.9
Amounts owed to joint ventures	1.8	1.1
Amounts owed to associated undertakings	1.6	1.8

All transactions arose in the normal course of business. They include sale of television advertising time, advertising commission, programme sales and the purchase of news programmes and transmission services.

In 2002 the Group made loans to ITV Digital (including ITV Sport Channel) totaling £82.7m (2001: £190.3m). Full provision has been made against all ITV Digital (including ITV Sport Channel) loans held at 30 September 2002.

36 POST BALANCE SHEET EVENTS

On 16 October 2002 Carlton and Granada plc announced agreed terms for a proposed merger, to pave the way for a fully consolidated ITV. The merger is conditional on regulatory clearances, including from the competition authorities. A joint submission by Carlton and Granada was filed with the Office of Fair Trading on 25 November 2002.

37 PRINCIPAL OPERATING COMPANIES

All of the Group's principal operating companies are detailed below and are included in its consolidated financial statements.

All subsidiary companies are wholly owned and are incorporated and operating in the UK (and are registered in England and Wales) except as noted. * Indirect holdings. **Trading as divisions of subsidiary companies.

(a) Subsidiary undertakings	Country of incorporation/establishment
Action Time (UK) Limited*	
Andre Deutsch Limited	
Carlton Active Limited**	
Carlton Books Limited	
Carlton Broadcasting Limited*	
Carlton Film Distributors Limited	
Carlton Interactive Media Limited	
Carlton International Media, Inc. (trading as Carlton America)*	USA
Carlton International Media Limited*	
Carlton Productions Limited**	
Carlton Media Sales Limited**	
Carlton Screen Advertising Limited*	
Carlton Television Limited*	
Carlton 021 Limited**	
Carlton Visual Entertainment Limited*	
Central Independent Television Limited *	
Hamdon Entertainment*	USA
HTV Group Limited*	
ITC Distribution LLC (also trading as Carlton Productions LLC)*	USA
ITC Entertainment Group Limited*	
The Moving Picture Company Limited*	
Planet 24 Productions Limited*	
SelecTV Cable Limited*	
Superhire Limited	
Westcountry Television Limited*	

(b) Joint ventures and associated undertakings	Country of registration/ incorporation	Nominal value of Ordinary shares	Number of Ordinary shares in issue	Proportion of shares held by group
GMTV Limited	England and Wales	£1	2,000,000	25%
Independent Television News Limited	England and Wales	£1	400,000	20%
ITV2 Limited	England and Wales	£1	915,610	44.1%
ITV News Channel Limited (1)	England and Wales	1p	1,000	32.5%
London News Network Limited (2)	England and Wales	£1	100	50%
Screenvision Europe (Holdings) Limited (3)	England and Wales	£1	40,208,404	50%
Technicolor Cinema Advertising LLC (4)	USA	US$1	122,000	50%

The Group holds a 33% interest in France Telefilms, operating in France. This is held as a fixed asset investment as the Group does not have a significant influence under the FRS 9 definition.

Notes

(1) The Group also owns 40.25% of the 20,350,000 preference shares of £1 each in issue.

(2) The Group also owns 50% of the 2,250,000 7% Cumulative Preference shares of £1 each in issue.

(3) Screenvision Europe (Holdings) Limited owns 100% of the share capital of Circuit A SAS, RMB Espana Multimedia SA, RMB Cinema SA and RMB Netherland BV.

(4) Technicolor Cinema Advertising LLC owns 100% of the issued share capital of Cinema Billboard Network Inc, Screenvision Cinema Network LLC, Technicolor Cinema Billboard Inc, Technicolor Screen Advertising Inc, Technicolor Screen Services Inc and Val Morgan Cinema Advertising Inc.

SHAREHOLDER INFORMATION

Financial calendar 2003

23 December 2002 Annual Report posted to shareholders
1 January 2003 and 1 July 2003 6.5p Preference dividends payable
25 March 2003 Annual General Meeting
7 April 2003 Final dividend for 2002 payable
End May 2003 Announcement of results for the six months ending 31 March 2003
Mid August 2003 Interim dividend for 2003 payable
Early December 2003 Announcement of results for the year ending 30 September 2003

Analysis of Ordinary shareholdings at 30 September 2002	Number of holders	%	Ordinary shares held	%
Size of holdings:				
1–200	1,695	11.14	188,793	0.03
201–400	1,759	11.56	536,654	0.08
401–600	1,912	12.56	979,095	0.15
601–1,000	3,152	20.71	2,633,230	0.39
1,001–5,000	5,087	33.44	10,668,417	1.59
5,001–10,000	526	3.46	3,725,515	0.55
10,001–20,000	243	1.60	3,466,167	0.52
20,001–50,000	226	1.49	7,252,378	1.08
50,001–100,000	159	1.05	11,651,016	1.73
100,001 and above	455	2.99	630,850,421	93.88
	15,214	100.00	671,951,686	100.00

Registrars
The Company's share registers are administered by Computershare Investor Services PLC and all correspondence regarding Ordinary or Preference shares should be sent to them at the following address: PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH. Telephone 0870 702 0000.

Stockbrokers
The Company's stockbrokers are Cazenove & Co and UBS Warburg.

Dividend Reinvestment Plan (DRIP)
The DRIP enables Ordinary shareholders to sign a mandate so that their dividend payments are automatically applied to purchase additional Ordinary shares in a convenient and cost-effective manner. Further details on the DRIP can be obtained from Computershare Investor Services PLC by telephoning 0870 702 0000.

Individual Savings Account (ISA)
The Carlton Communications Plc Corporate ISA is managed by Barclays Stockbrokers Limited. Further details on the ISA can be obtained from Barclays Stockbrokers Limited by telephoning 0345 777 400.

American Depositary Shares (ADSs)
J P Morgan Chase Bank is the Depositary for the Company's ADSs and their address for enquiries is PO Box 8205, Boston, MA, 02266-8205, USA, Tel: 1-800-428-4237. ADSs are evidenced by American Depositary Receipts (ADRs). Each ADS represents five Ordinary shares. The ADSs are listed on NASDAQ and traded under the symbol CCTVY. More information about ADSs is available on J P Morgan's website (www.adr.com).

Carlton Communications Plc website
Updated information, including recent press releases and the current market price of Ordinary shares, is available on the Company's website, www.carlton.com.

Electronic Shareholder Communications
To receive future shareholder information such as Annual Reports, Notices of General Meetings and Forms of Proxy in electronic format, shareholders can register online at www.carlton.com. The Shareholder Electronic Communication link is to be found in the Shareholder Information section. The Reference Number of the shareholder is required for registration. Queries on this service can be addressed by Computershare Investor Services PLC on 0870 702 0000.

Carlton Communications Plc
Registered Office: 25 Knightsbridge, London, SW1X 7RZ
Registered Number: 348312
www.carlton.com